

45th Biennial Report

Office of State
Tax Commissioner

Rick Clayburgh
Tax Commissioner

**For the Biennial Period of
July 1, 1999
through
June 30, 2001**





OFFICE OF STATE TAX COMMISSIONER
STATE OF NORTH DAKOTA

RICK CLAYBURGH
TAX COMMISSIONER

December 1, 2001

To: The Honorable John Hoeven Governor
The Honorable Al Jaeger, Secretary of State

It is with great pleasure that I submit for your consideration the Forty-Fifth Biennial Report of the Tax Commissioner.

The report covers the operations of the Office of State Tax Commissioner for the period July 1, 1999 through June 30, 2001, and is submitted pursuant to North Dakota Century Code §§ 55-06-04 and 57-01-02.

Sincerely,

A handwritten signature in black ink that reads "Rick Clayburgh".

RICK CLAYBURGH
TAX COMMISSIONER

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The Office of State Tax Commissioner

Accountability and Customer Service Initiatives

History of the Office of State Tax Commissioner

The Office of State Tax Commissioner has been a separate agency since 1912. Prior to 1912, the State Auditor handled some of the functions now performed by the Tax Commissioner. From 1912 to 1919, the Governor appointed a three-member nonpartisan Tax Commission to administer the tax laws of the state. As a result of a special election in 1919, the three-man tax commission was changed to a single Tax Commissioner whom the Governor was given the authority to appoint with consent of the Senate. A constitutional amendment adopted June 28, 1938 changed the Tax Commissioner post to an elective office with a term of four years. The measure also stipulated that the Tax Commissioner should be elected on a no-party ballot and that the first Commissioner would not be elected until the 1940 General Election. In 1987 the Tax Commissioner was removed from the no-party ballot. Of all 50 states, North Dakota is one of only three states in which the Tax Commissioner is elected.

Even though the legislation that created the commission allowed hiring a secretary, the Tax Commission budget was insufficient to support the position. The first department staff member was hired in 1913 and by 1928 the Department had grown to 12 employees. The Tax Department continued to grow as the state's population increased, as new tax types were added, as tax laws became more complex, and as new services were provided. By 1995 the number of employees peaked at 157.

In recent years, staff numbers have been reduced through attrition, through streamlining duties and by finding efficiencies within the department as well as through effective utilization of technology. As a result, during the 1999-01 biennium the Office of State Tax Commissioner was authorized 144 permanent staff members.

The Office of State Tax Commissioner Accountability and Customer Service Initiatives

The Office of State Tax Commissioner recognizes its responsibility to North Dakota's citizens and is committed to improving customer service and increasing productivity while reducing costs. Several projects and technology-related initiatives undertaken by the department have helped the Tax Commissioner reach these goals. Descriptions of those as well as the major teams and their accomplishments during the 1999-2001 biennium follow.

A Study of North Dakota's Tax Structure

The 1999 Legislature provided for a Tax Study Committee when it approved Governor Ed Schafer's request and provided funding in the Office of State Tax Commissioner's budget. The committee was a citizens' review of the tax structure in North Dakota whose purpose was to take a critical look at how North Dakota's tax structure serves the state. The group was asked to make recommendations to promote positive changes for a fair and simple tax system that is relevant and responsive to a 21st century economy. The study group began with the first meeting on March 24, 2000 and continued meeting for the next ten months.

The Tax Study Committee reviewed the history of each tax type and considered the impact of the tax types on the changing dynamics of an economy which has moved from a "goods based" economy to one that is "service" or "information" driven. The committee also identified positive components of the current tax system as well as issues that could be addressed to account for changes in the economy, the state, and the nation.

A final report was prepared and distributed to the 2001 Legislative Assembly. The report provided a close examination of the items discussed by the committee including pros and cons of proposed solutions, and recommendations to address those issues.

Technology Initiatives to Improve Productivity and Enhance Service

Providing exceptional customer service is one of the major goals of the Office of State Tax Commissioner. Through increased use of technology, the department has been transformed into a more productive and customer service-driven agency. During the 1999-2001 biennium, several technology-related initiatives were implemented:

- Implemented a new validation system and an automated, integrated accounting system.
- Implemented federal and state electronic filing for individual income tax returns.
- Implemented a direct deposit program for individual income tax refunds.
- Implemented the withholding telefile system allowing employers to file and pay quarterly withholding taxes by telephone.
- Implemented the sales tax webfile system allowing a taxpayer to file the sales tax return via the Internet.
- Added to the Tax Commissioner's web site the application process for sales tax permits, withholding accounts, and motor fuels permits.

- Created a Client/Server system for the Oil and Gas Division to improve access to taxpayer submitted information.
- Implemented a Motor Fuels Tax EDI system for all motor fuel licensed dealers to file their schedules of gallons received and dispersed electronically.
- Implemented hardware and software standards so that Sales tax field audit staff can communicate securely and effectively to and from the Bismarck office through the state wide-area network to the Bismarck Local area network.
- Implemented computer hardware/software standards within the department to improve customer service by providing for the efficient flow of information both internally and externally.

Late in the 1999-2001 biennium, the Office of State Tax Commissioner began an Electronic Document Management System (EDMS) project. The EDMS project is a partnership between the state Information Technology Division and the Office of State Tax Commissioner. This partnership allows a cost-sharing of the initial purchase cost to enable the state ITD to provide the same high-quality and cost-efficient service to other state agencies.

In addition to the electronic document storage and retrieval repository, the system includes tools to improve form processing, Optical Character Recognition (OCR), Intelligent Character Recognition (ICR), and Mark Sense. When combined, these technology tools provide the framework to:

- Stop paper processing through key-from-image,
- Eliminate the need for paper storage and central filing facilities,
- Allow multiple staff from multiple locations to view electronic images at the same time through the State network and the department's local area network,
- Improve customer service through faster processing of tax returns.

Performance Management Team

The Office of State Tax Commissioner is committed to a performance-based employee review system along with being dedicated to recruiting and retaining bright, talented, and motivated people who will provide superior service to our customers. To assist the department in this goal, a Performance Management team was formed. This team's goal is to draft, refine and implement a performance management system that reflects the mission of the department. The performance management plan incorporates the employee's detailed position description with the mission of the Office of State Tax Commissioner. As a result, the performance

management plan is a management tool to promote excellence in customer service, encourage teamwork, and recognize individual initiative and responsibility, while promoting compliance with the tax laws of North Dakota. The outcome of performance reviews may be considered in determining a portion of the annual salary increase, in promotion selection, and as a basis for performance improvement.

Processing Team

The Processing 2001 Team, consisting of members directly involved in the processing of Individual Income tax returns, is currently reviewing the plans and procedures for each phase of the process. Each phase will be benchmarked and a reasonable expectation for timely processing of Individual Income tax returns will be developed. Also, the team will develop a standard expectation for handling taxpayer inquiries regarding their refund checks or direct deposits. The team has identified the following goals to achieve with this process:

- Establish a time limit for each phase,
- Have limited or no overtime for any permanent personnel,
- Reduce the number of temporary employees utilized, and
- Mail checks or direct deposits of taxpayer refunds more effectively.

It is anticipated that the team will complete its work by December 1, 2001 and put into effect approved team recommendations by January 2, 2002.

Income Tax Revision Act of 2001 Implementation Team

The 2001 Legislature passed and the Governor approved House Bill 1399, the *Income Tax Revision Act of 2001*. The change was made to prevent an anticipated state revenue shortfall that would result from the federal tax rate cuts enacted in 2001. The new tax law replaced the prior method of using federal tax liability as the starting point in calculating the North Dakota taxable income. Effective for the 2001 tax year, the tax on North Dakota taxable income is determined by applying a new five-rate tax bracket system with tax rates ranging from 2.1 percent to 5.54 percent.

A team of employees was formed to implement the new individual income tax law with separate sub-teams formed to modify the computer system, forms design, and withholding system. Tax practitioners, accounting firms, and employers from around the state were contacted early in the process to provide input regarding the systems changes and forms design. Most of the work is completed and the new system will be operational by year-end.

Powers and Duties of the Tax Commissioner

1. Shall perform all the duties with which he/she is charged.
2. Shall exercise general supervision over all assessors of general property or other taxes, township, county, and city boards of equalization, and all other assessing officers in the performance of their duties. All assessments of property shall be made relatively just and equal in compliance with the laws of this state.
3. Shall direct actions and prosecutions to enforce the laws, penalties and punishments of persons for failure to comply with the provisions of tax law. The Tax Commissioner shall cause complaints to be made against officers for neglect or refusal to comply with the law, and generally shall enforce all tax proceedings and revenue laws of the state in the proper court.
4. May require county state's attorneys to assist in the commencement and prosecution for the violation of any tax laws.
5. May require township, city, county and other public officers to report information regarding the assessment and collection of property and other taxes, receipts for taxes and other sources, the expenditure of public funds and other information in the administration of tax laws in a form that he/she may prescribe.
6. May summon witnesses to appear, give testimony, produce books, records, papers and documents relating to any matter which he/she or the state board of equalization may have authority to investigate or determine. The Tax Commissioner may cause the depositions to be taken like depositions of witnesses are taken in civil actions in the district courts.
7. May require a reassessment of property in any county to be made in accordance with N.D.C.C. ch. 57-14 whenever deemed necessary, or may require county auditors to place on the assessment rolls property which may be discovered and which has not been taxed according to law.
8. Shall examine all cases where evasions or violations of the laws of assessments and taxation are alleged, complained of, or discovered, and shall ascertain if existing laws are defective or are administered improperly or negligently.
9. Shall submit to the governor and the office of management and budget as prescribed by 54-06-04 the biennial report of the commissioner and the state board of equalization.
10. Shall visit other states and confer with taxing officials and attend tax or other economic conferences or conventions, in person or by his/her authorized agent.
11. Shall certify all levies, assessments, equalization, or valuations made by him/her or the state board of equalization, not more than thirty days after they have been made, or at periods otherwise provided by the law.
12. Shall have the power to execute reciprocal agreements with the appropriate officials of any other state. These agreements may waive all or any part of the tax requirements imposed by this state on gasoline or other fuels in the state of North Dakota, when the tax has been paid to the other state. The officials of the other state must grant the equivalent privileges with respect to gasoline or other fuels used in that state when the tax has been paid to the state of North Dakota.
13. May maintain an accounting system which includes a special category of accounts, designated as noncurrent accounts. The noncurrent accounts shall be the accounts which are uncollectible as a matter of law or those accounts where all reasonable collection efforts over a period of six years have produced no results. After examination by the state auditor, and upon his/her recommendation for cause, specific accounts may be removed by the commissioner from noncurrent status and all records pertaining to it destroyed.
14. May waive, upon a showing of good cause, any and all tax due. A lien must have been filed against the debtor's property and the attorney general must approve the waiver. Further, a debtor's individual income tax liability may be reduced based upon a federal offer in compromise.
15. May allow a taxpayer to pay a tax liability to the state electronically no later than the date the payment is required by law to be made.

Specific duties assigned to the Office of State Tax Commissioner are set out in N.D.C.C. Title 57, and the general powers and duties in N.D.C.C. § 57-01-02.

The North Dakota Office of State Tax Commissioner

Mission Statement

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota.

Vision Statement

The vision of the Office of State Tax Commissioner is to instill the highest degree of public confidence in our integrity and reliability by providing prompt, accurate and courteous service while promoting compliance with the tax laws of North Dakota.

Guiding Principles

We treat our customers as we would want to be treated.

Customer service comes first. The public, other government officials and our coworkers are our customers. Conduct business in a courteous, dependable and professional manner. Anticipate the unexpressed needs of our customers.

We extend cooperation and assistance to fellow public servants.

Be consistent and accountable in our relationships with legislators, government officials and government personnel. Strive to earn respect for ourselves and elevate the public perception of all state employees.

We uphold the Taxpayer Bill of Rights.

Recognize the rights of taxpayers. Provide an equal and meaningful opportunity for taxpayers to be heard. Educate taxpayers on their responsibilities and rights under North Dakota tax law.

We make wise and prudent use of all resources.

Take seriously the responsibility the citizens of North Dakota have given us. Improve service through the effective use of technology and other resources.

We recognize employees are our biggest asset.

Encourage personal and professional growth. Recruit and select well qualified employees based on high standards. Recognize the achievements of employees.

We recognize each individual's contribution to the team.

Explore and implement leadership styles that encourage teamwork. Foster a work climate which builds on team strengths while encouraging individual initiative. Acknowledge all coworkers as members of the same team.

We value those with whom we work.

Communicate with our coworkers in an open, honest and courteous manner. Respect our differences and consider the views of the entire staff.

Functions and Responsibilities of The Office of State Tax Commissioner's Divisions

The Office of State Tax Commissioner comprises seven separate divisions. The Commissioner's Division is the administrative nucleus of the department. The Legal Division provides legal advice and counsel to the department and to the State Board of Equalization and conducts field inspections and fraud investigations. The Controller's Division performs accounting functions, provides staff services and collects delinquent taxes. The Information Technology division is responsible for leading the department's technology efforts. The Sales and Special Taxes Division, Income & Oil Taxes Division and Property Tax Division administer different state taxes under the direction of the Tax Commissioner. The following summaries provide more detailed explanations of the functions and operations of the Office of State Tax Commissioner's divisions.

Commissioner's Division

The Commissioner's Division is responsible for the general administration of the department. It also serves as the department's primary research center, manages personnel functions, directs internal audits of the department, and conducts studies as assigned by the commissioner on tax-related matters.

Tax Commissioner

The Tax Commissioner is the chief administrator of the department and final authority of its policies. The commissioner serves on several administrative boards related to the Office of State Tax Commissioner.

As secretary to the State Board of Equalization, which certifies tax assessments for public utilities whose properties lie within several taxing districts, the commissioner is responsible for determining the tentative valuation of those properties. The commissioner also oversees regular department studies of real estate assessments. The State Board of Equalization may use these studies in equalizing property tax assessments between counties and taxing districts.

The Tax Commissioner is a voting member of the Multistate Tax Commission (MTC). This organization, through the cooperation of its member states, enhances the ability of state revenue departments to enforce compliance with tax laws applying to businesses conducting business in more than one state.

Deputy Commissioner

The deputy commissioner assists the commissioner in determining department administrative policy. The deputy supervises the development and implementation of effective personnel and fiscal management; facilitates management planning to determine current and future staffing needs; and serves as the division director for research, internal audit, and human resources. The deputy leads a department-wide effort to provide clear, concise and accurate information to all taxpayers through publications and news releases; serves as the commissioner's lead person in assuring good customer service; and is responsible for pursuing and implementing technology-related projects that enhance service and increase efficiency. The deputy commissioner also has an oversight responsibility for accounting, budgeting, training, and salary administration.

Research & Statistics Section

This section prepares revenue projections and other fiscal analyses. When requested by the Legislative Council, it prepares estimates and projections of fiscal implications of all proposed tax legislation dealing with state revenues. The section also estimates the current and future fiscal impact of all administrative rulings proposed by the Tax Commissioner, maintains files of legislation affecting state finance, and develops and maintains statistics on state tax revenues to provide information and analyses to the commissioner. The Research and Statistics Section prepares and publishes the biennial report of the Tax Commissioner, statistical reports, and comparative analyses of tax collections.

In addition to assisting OMB in the preparation of revenue projections, the Office of State Tax Commissioner is responsible for preparing fiscal notes on proposals that affect revenues resulting from the various taxes which the department administers. The responsibility of those fiscal note responses rests with the Research and Statistics Section. In addition to responses that must be prepared during the Legislative Session, the department prepares fiscal note information for the Interim Committee on Finance and Taxation and responds to requests for fiscal information from individual legislators, businesses, and other government agencies.

Human Resources Section

The Human Resources Section is responsible for recruitment of new employees and compliance with Equal Employment Opportunity regulations and other state and federal employment laws. This section performs job audits and reviews position classification, maintains employee records, and administers the department's wage and salary plan and is responsible for hiring temporary employees during the tax processing season. Risk management, maintaining the Department's employee handbook and the Policies and Procedures manual, having a major role in the administration of the Department's performance management plan, are additional duties that are carried out by the Human Resources Section.

Internal Audit Section

The internal auditor conducts audits within the Office of State Tax Commissioner to determine compliance with policies and procedures and to monitor the efficiency of all department divisions and sections. After an audit, recommendations are offered to improve the operations and effectiveness of the department.

Public Information

The Office of State Tax Commissioner communicates with taxpayers, public officials, policy makers, and the general public. The department also responds to inquiries and disseminates tax-related publications and information. A public information specialist assists the divisions in this process, working with the general public, policy makers, and other agencies and officials. Several publications are produced, including a booklet summarizing the state's

taxes and comparing those to other states, along with a variety of brochures, booklets, reports, and studies. In addition to printed publications, the individual also provides assistance with the management of the department's web site.

During the 1999-2001 biennium the Commissioner's Division included eight full-time positions which include the Tax Commissioner and Deputy Commissioner; a personnel officer, a research analyst, an internal auditor, a public information specialist, and two office assistants.

Information Technology Division

Having placed a growing importance and reliance on technology than during previous administrations, an Information Technology Division was created and implemented during July 2000.

The Information Technology Division is responsible for leading the technology efforts of the department through increased oversight and guidance. The Information Technology Division evaluates technology related requests (from hardware and software through programming), retains computer system documentation, and designs, tests, and implements new computer systems. This section also maintains current computer systems and communicates with all users; develops and monitors physical security measures; reviews security methods and recommends security changes; controls access to Internal Revenue Service and state data files; provides business analysis, business process re-engineering and project management; performs the data entry input function; and coordinates mainframe computer processing of Office of State Tax Commissioner data with the Information Technology Division.

During the 1999-2001 biennium the Information Technology Division consisted of a director, four data processing coordinators, one administrative staff officer, one data input supervisor and five data input operators.

Legal Division

The Legal Division provides legal advice and counsel to all divisions within the Office of State Tax Commissioner and to the State Board of Equalization. The division's attorneys respond to inquiries by the Tax Commissioner, legislators, officials and citizens and prepare opinions on tax questions. They also assist in reviewing and drafting department administrative rules pursuant to the provisions of the Administrative Agencies Practice Act and are responsible for these

rules being submitted to the Attorney General for approval and being filed with the Legislative Council.

During the North Dakota legislative session, the legal staff develops and drafts bills for the Tax Commissioner to be presented for consideration by the Legislature. At the end of the legislative session, the legal staff interprets new or amended laws to aid the department in implementing those laws and assists the commissioner in issuing rules, regulations or policies regarding them.

Other responsibilities of the legal staff are to conduct formal hearings before the commissioner or his designated representative and to represent the Office of State Tax Commissioner and the State Board of Equalization in litigation brought by or against either the department or the board.

During the 1999-2001 biennium the Legal Division included four full-time positions: three attorneys and one legal assistant.

Controller's Division

The Controller's Division of the Office of State Tax Commissioner consists of three sections: Accounting, Accounts Receivable and Staff Services.

Accounting Section

Acting as the department's center for business transactions, the Accounting Section prepares the Office of State Tax Commissioner's executive budget request and assists with biennial revenue estimates. This section also prepares the department's internal budget, analyzes and forecasts expenditures, and monitors and reports on budget performance. All tax payments made to the department are processed by this section, which also prepares reports and financial statements for management information and auditing purposes. All records maintained by the Accounting Section are subject to audits by the State Auditor's Office.

Accounts Receivable Section

The Accounts Receivable Section is responsible for collecting delinquent taxes on accounts referred by the division responsible for administering the tax. Established procedures used for the collection of delinquent taxes include telephone and written communication with taxpayers and the mailing of final notices requesting payment of taxes. If necessary, this

section may resort to civil or criminal legal action. It is the policy of the Accounts Receivable Section to initiate legal action only in those cases in which the taxpayer fails to respond to collection attempts. Taxpayers are always given ample notice and opportunity to comply with requests for payment of taxes.

Staff Services Section

The Staff Services Section provides support services for the department. The mailroom receives and fills orders for tax forms, and receives, opens, and initially processes tax returns. The central word processing unit provides a typing and transcription service for all areas of the department, and produces camera-ready copy for tax forms and other printed materials. The central records repository provides a document control system to house tax records and ensure confidentiality of taxpayer information.

In the 1999-2001 biennium, the Controller's Division included 30 full-time positions. Those positions include the controller, one accounting/budget specialist, one collections supervisor, one compliance officer, six collections officers, five account technicians, four administrative assistants, six office assistants, one record center technician, and four records center clerks.

Sales and Special Taxes Division

The Sales and Special Taxes Division includes three sections: Sales and Use Tax, Fuel Taxes & Miscellaneous Taxes, and Estate Tax.

Sales and Use Tax Section

The principal function of the Sales and Use Tax Section is to administer the sales tax. This section monitors compliance with the sales tax law, conducts field audits, issues sales tax permits, revokes permits of those delinquent in reporting sales, and cancels permits issued to businesses which are no longer operating. The section may grant or deny taxpayer requests for exemptions; conduct hearings and negotiate settlements; issue administrative tax rulings; provide guidelines, rules and regulations for retailers and other taxpayers; review compliance with sales and use tax regulations in out-of-state purchases; and inform the public of sales and use tax.

This section also administers the local sales and use taxes, highway contractor's tax, cigarette and tobacco taxes, waste management surcharge, city lodging and restaurant taxes, and Canadian refunds.

Motor Fuels and Miscellaneous Tax Section

The Motor Fuels Tax Section is responsible for administering, collecting and auditing motor vehicle fuel, special fuel, and aviation fuel taxes. This section also administers the motor vehicle fuel and aviation fuel tax refund programs.

North Dakota imposes a motor vehicle fuel tax on sales of gasoline and gasohol. Refunds are granted to consumers who used the fuel in nonlicensed equipment for agricultural, railroad, or industrial purposes. Refunds are also granted to political subdivisions using the fuel for construction, reconstruction, and maintenance of roads and highways, and on fuel used in miscellaneous nonlicensed equipment.

North Dakota imposes a special fuel tax on diesel fuels, heating fuels, kerosene, and propane. Kerosene and propane used in licensed vehicles and all clear diesel fuels is taxed differently than kerosene and propane not used in licensed vehicles and all dyed (red) diesel fuels. Dyed diesel fuels are intended for use as heating fuel and in nonlicensed machinery or equipment for agricultural, industrial, or railroad purposes. Special fuel taxes are not refundable.

North Dakota also imposes a refundable tax on aviation gasoline and jet fuel. When the tax is refunded, a lower tax rate is levied in lieu of the per gallon tax and is deducted from the consumer's refund.

Other functions of this section include interpreting tax laws and issuing administrative rules; reviewing, issuing and revoking licenses and permits; and responding to taxpayer questions. The Motor Fuels Tax Section also requests field audits to be completed by the sales tax field audit staff to determine compliance with tax laws for which it is responsible.

Estate Tax Section

The Estate Tax Section supervises North Dakota's tax on property transferred upon death.

Major revisions to North Dakota's estate tax law by the 1979 Legislature considerably eased the complexities faced by this section. Under that legislation, which took effect March 16, 1979, North Dakota's estate tax is entirely contingent on credits which the federal government allows on federal estate taxes. Specifically, the federal government allows a credit for state estate taxes paid, a credit which is applied against the federal estate tax. North Dakota law now provides that its state estate tax will be equal to, but no more than, the credit allowed on federal estate tax returns. In other words, the estate will pay no more in North Dakota estate tax than it would otherwise pay in additional taxes to the federal government.

Under the revised law, the attorney for the estate is required to give the Estate Tax Section a copy of the federal estate tax return, which is verified to assure that the federal credit is computed correctly. The section also maintains estate tax records, and informs the public about estate tax laws, policies and procedures.

In the 1999-01 biennium there were 43 full-time positions in the Sales and Special Taxes Division. These included the sales and special taxes director, the supervisor of motor fuels and miscellaneous taxes, field audit supervisor, sales tax compliance supervisor, four compliance officers, 21 auditors, one administrative assistant, five account technicians, two audit technicians and six office assistants.

Income and Oil Taxes Division

The Income and Oil Taxes Division administers the corporate and individual income taxes, financial institutions tax, oil and natural gas gross production tax, and the oil extraction tax. The division is comprised of the Corporate Income Tax section, the Oil and Gas Taxes section, and the Individual Income Tax section.

These sections each receive and process tax returns, perform audits, and conduct cross-checks of federal tax returns with state returns. They use various investigative means to identify nonfilers, investigate reasons for nonfiling, and enforce filing requirements. Each section publicizes tax rules and regulations, issues administrative rulings, recommends tax law changes, revises tax forms and instructions to taxpayers, and monitors litigation.

Taxpayer assistance is also provided by each section. Tax clinics are conducted to provide information on policy and legal changes affecting tax forms and filing requirements.

Corporate Income Tax Section

The Corporate Income Tax Section administers the state's income tax imposed on all corporations doing business in North Dakota. This section administers the state's financial institution tax, as it applies to banks, trust companies, and building and loan associations doing business in the state. A portion of this tax goes directly to the counties.

The Corporate Income Tax Section conducts in-office and/or field audits of all corporations. Historically, the primary emphasis for field audits has been placed on the large multinational corporations doing business in the state. Because field audits are very time consuming and the size of the section's staff limits the number of audits that can reasonably be conducted, the Corporate Income Tax Section relies, in part, on the Multistate Tax Commission cooperative program to perform field audits.

In the 1999-01 biennium, the Section's auditing staff conducted 13 corporate income tax field audits and 563 in-office audits. Those audits resulted in more than \$38.3 million in additional assessments.

Also, in the 1999-01 biennium, income and sales tax field audits conducted by the Multistate Tax Commission resulted in more than \$3.5 million in additional assessments for North Dakota. The state's cost of these audits was \$264,651.

Oil and Gas Taxes Section

The Oil and Gas Taxes Section performs in-office and field audits, as well as cross-checks compliance reviews of oil and gas companies conducting business in the state. During the 1999-01 biennium, the auditing staff initiated 36 gross production and oil extraction tax audits and 10,443 compliance reviews that resulted in assessments of \$3.4 million.

Individual Income Tax Section

The Individual Income Tax Section administers the state's income tax on individuals, estates, and trusts.

Data from all individual and fiduciary income tax returns is entered at the Office of State Tax Commissioner and processed at the Information Services Division. The computers generate calculation worksheets to identify any returns requiring additional attention. Returns are reviewed, claims for refunds are verified, and additional taxes due are computed and assessed.

The Individual Income Tax Section also performs in-office and field audits. Most audits conducted by this section are in-office. Field audits of employers' records are also conducted to monitor compliance with the state income tax withholding law. The audits conducted by this section during the 1999-2001 biennium netted more than \$9.3 million in additional assessments for individual income taxes.

During the 1999-01 biennium, the staff of the Income and Oil Taxes Division included 40 full time positions: an income and oil taxes director, a corporate income tax supervisor, an oil and gas tax supervisor, an individual income tax supervisor, two compliance officers, 19 auditors, one withholding specialist, 11 audit technicians, an administrative assistant and two office assistants.

Property and Utility Taxes Division

The property tax is an important source of revenue for financing school districts, and county, city and township government. While local government units have the responsibility of assessing and taxing all classes of real property, the State Office of State Tax Commissioner provides assistance to local government units to assure that the property tax is administered equitably throughout the state.

The Property and Utility Taxes Division, under the direction of the State Supervisor of Assessments, works with local government to maintain equalization of property assessments among the various counties in North Dakota. To assure property tax equalization, the division performs annual ratio studies, which compare true and full value of real estate with the sale price of properties which have been sold. If significant assessment variations exist between counties, steps are taken by the State Board of Equalization to equalize those assessments. In addition, personnel from the division investigate individual assessments for the board and make detailed appraisals of complex properties when the owners of those properties have appeared before the State Board requesting a review.

The Homestead Credit and Renter Refund Program is also administered by the Property and Utility Taxes Division. Under this state-funded program, qualifying senior citizens and totally and permanently disabled persons receive a reduction of their property tax assessment or a partial refund of annual rent paid. The total amount of revenue lost to the local taxing districts by this reduction is reimbursed to them from the state general fund. Credits are allowed not only against real property tax assessments

but against special assessments as well. Credits allowed for special assessments become a lien on the property. The division has the responsibility for monitoring the liens and for providing a release whenever the liens are satisfied.

Assisting the Tax Commissioner and the State Board of Equalization in making valuations of utility property for property tax purposes is the Utilities Tax Section. Most real property is assessed by local government. However, the property of railroads, airlines, and public utilities such as electric and gas companies, and telephone companies, is assessed at the state level. The Tax Commissioner, utilizing appraisals by the Utilities Tax Section, makes tentative valuations and the State Board of Equalization sets the final assessed valuations. The section then certifies to each county the value placed on the utility property located within that county, and the tax is administered and collected by the local governments.

The State Supervisor of Assessments has the statutory responsibility to certify that assessors and county directors of tax equalization have met minimum requirements. The certification process is administered by the property tax division. The division also conducts seminars for local government officials to improve administration of the property tax and holds property tax appraisal schools for assessors and other local tax officials. Tax statutes are interpreted, legal questions are reviewed and analyzed, and information concerning changes in law or policy affecting property taxation is issued. The division acts as the liaison between local property tax administrators and state officials. While it does not directly administer the property tax, the division functions as a statistical and information resource center of communications among all levels of government to maintain efficiency, promote uniformity and achieve equalization within the

property tax system. The legislative philosophy regarding budgetary control of local taxing districts makes it necessary that the Property and Utility Taxes Division develop maximum levy worksheets for use by the county auditors in determining the total dollar levy allowed each taxing district. Workshops conducted by division personnel provide county auditors with firsthand knowledge of the procedures that they must use.

The Utilities Tax Section administers the telecommunication gross receipts tax imposed on the retail sale of two-way telecommunications services.

Another responsibility of the Utilities Tax Section is administering the state severance tax on coal and the coal conversion privilege tax on electrical generating plants and coal gasification plants. The section audits reports of collections of these energy-related taxes. The Utilities Tax Section also prepares reports on the collection of these taxes and information for revenue distribution by the State Treasurer's Office, which is responsible for allocating revenue from these taxes among the state, the producing counties, and a permanent Coal Development Trust Fund.

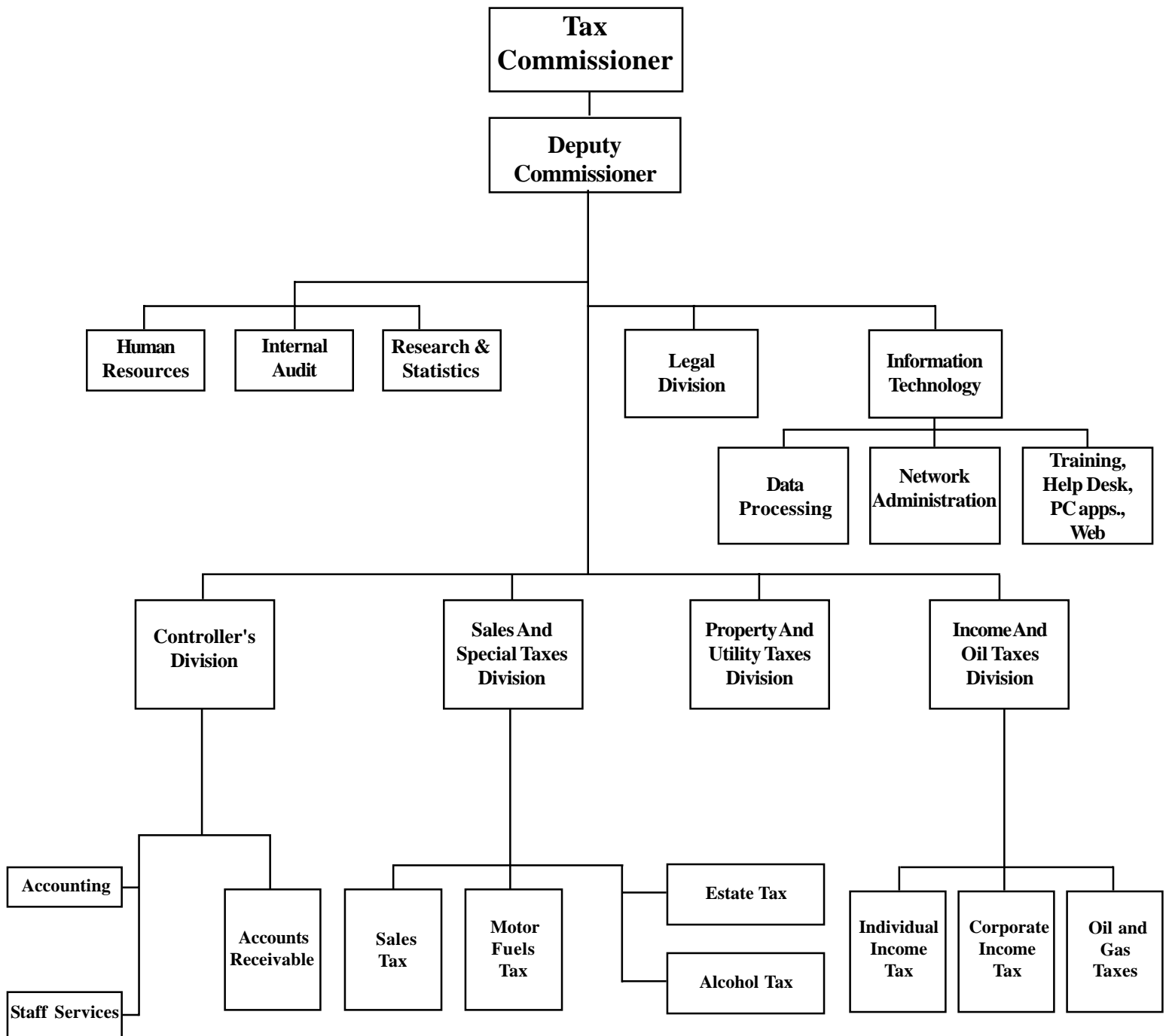
The Property and Utilities Taxes Division annually certifies to county directors of tax equalization in each of the state's 53 counties the average true and full agricultural value of farmland, as determined by North Dakota State University. It is this value on which the counties base their assessments of agricultural property.

The staff of the Property and Utility Taxes Division in the 1999-2001 biennium included six full-time positions: the state supervisor of assessments, a deputy supervisor, a property tax specialist, one audit technician, one auditor, and one office assistant.

Office of State Tax Commissioner

Organizational Chart

January 2001



Future Directions

Legislation enacted during the 2001 Legislative Assembly impacts the administration of some of North Dakota's major taxes during the 2001-03 biennium and in the years beyond. The following summarizes significant tax legislation enacted by the 2001 Legislature.

Income Tax Revision Act of 2001

- In an effort to avoid an anticipated state revenue shortfall due to federal income tax rate cuts, the Individual Income Tax was “decoupled” from the federal system utilized by taxpayers for the past 20 years. In place of computing the state income tax as a percentage of the federal income tax liability, a new system was created that includes 5 income tax brackets and rates levied on North Dakota taxable income.

- A new income tax credit for individuals, estates, and trusts is allowed for investment in a business that owns and operates an agricultural commodity processing facility in North Dakota
- The seed capital investment tax credit provisions were modified and limitations removed in an effort to make the provisions more useful for taxpayer/investors

Renaissance Zone Act

- Changes were made to enhance the property and income tax benefits for investment and/or property ownership in a qualified Renaissance Zone
- A \$2.5 million increase in the statewide ceiling on the total credits allowed for investments in renaissance fund corporations was authorized, subject to certain qualifications.

Wind Energy Program

- Legislation was enacted that granted sales, income and property tax exemptions and/or reductions for qualified wind-powered electrical generating facilities locating in North Dakota

Income Taxes

- The deduction for adoption expenses allowed with the long-form filing method for individuals was increased from \$1,000 to \$1,750, and a five-year carryover of any unused deduction was also added

Sales and Special Taxes

- The reduced sales tax rate of 1.5% for used farm machinery and irrigation equipment was continued through June 30, 2002 and thereafter, used farm machinery and irrigation equipment is exempt from sales tax
- A change was made in the way the motor vehicle excise tax is collected on leased vehicles, requiring the 5% excise tax be collected by the leasing company on the total consideration or amount due for the entire period of the lease
- For auto leases under 30 days (car rentals) a new provision requires the collection of a 3% sales tax surcharge, which can be used by the rental companies to offset the 5% motor vehicle excise tax applied on fleet vehicles intended for rental purposes. Revenue from the 3% surcharge in excess of the motor vehicle excise tax is remitted to the Tax Commissioner for deposit in the state general fund
- An applicant is required to provide proof of payment of sales or use tax upon registration of a motorboat
- The administrative responsibility for the wholesale liquor and beer taxes in North Dakota is transferred to the Office of Tax Commissioner

- The method of taxation of “other tobacco products” (such as snuff and chewing tobacco) was changed from a percentage of wholesale cost to a weight-based taxing method
- In accordance with the national project, the Streamlined Sales Tax Act was authorized, enabling North Dakota to participate with other states in the project aimed at developing a multi-state, voluntary, streamlined system for the collection and administration of state and local sales and use taxes

Coal Taxes

- The coal severance tax rate was reduced from \$.75 to \$.375 per ton and revenue was redistributed to 70% remitted to the producing counties, and 30% to a permanent trust fund
- The coal conversion tax rate on installed capacity was increased from .25 of a mill to .65 of a mill and the revenue was redistributed to 85% to the state general fund and 15% remitted to the producing counties
- For gasification plants, a limit was set on the amount of gross receipts subject to the coal conversion tax, and the tax rate on synthetic natural gas was increased from \$.07 to \$.135 per 1,000 cubic feet of gas produced

Property Tax

- The definition of inundated agricultural land was changed to agricultural property containing a minimum of ten contiguous acres that was unsuitable for growing crops or grazing farm animals for at least two consecutive growing seasons, and that in the most recent prior year produced less revenue than the county average revenue per acre for non-cropland
- When a board of county commissioners rejects an application for abatement, a written explanation of the rationale for the decision must be provided to the applicant
- An applicant for a homestead property tax credit or a renter’s property tax refund may use the standard mileage rate for calculating the cost of transportation for medical care, in computing the medical expense deduction from income

Comparative Statement of Collections for the 1997-99 Biennium and the 1999-01 Biennium

Tax Type	1997-99 Biennium	1999-01 Biennium	Increase or Decrease	
			Dollars	Percent
Sales and Use Taxes	\$639,948,172	\$666,598,903	\$26,650,731	4.16%
Individual Income Tax	359,293,285	411,729,980	52,436,695	14.59%
Corporation Income Tax	123,420,219	99,134,855	(24,285,364)	-19.68%
Oil and Gas Taxes	79,630,105	129,888,009	50,257,904	63.11%
Coal Taxes	75,532,221	78,498,528	2,966,307	3.93%
Motor Fuels Taxes	208,181,847	224,623,456	16,441,609	7.90%
All Other Taxes and Fees	<u>192,860,485</u>	<u>226,381,684</u>	<u>33,521,199</u>	17.38%
Total Net Collections	\$1,678,866,334	\$1,836,855,415	\$157,989,081	9.41%

Sales and Use Taxes: Although slight, the growth in this category is due to modest increases in taxable sales and purchases.

Individual Income Tax: The increase in this category is due to total personal income growth brought about by continued low unemployment, and expanded capital gain realizations.

Corporation Income Tax: The decrease in this category is due to reductions in national corporate profits as the overall US economy slows.

Oil and Gas Taxes: The growth in this category is due to increased world oil prices and modest growth in statewide oil production.

Motor Fuels Taxes: The growth in this category is due to an increase in the motor and special fuels tax rates from \$.20 to \$.21 per gallon, effective 7/1/99.

All Other Taxes and Fees: The increase in this category is due primarily to the growing number of cities and counties collecting local sales taxes, growth in the Financial Institutions tax, and two full years' collection of the Telecommunications Tax. (This new tax was in effect only the second year of the 1997-99 Biennium.) This category includes the city and county sales tax, city restaurant and lodging tax, city occupancy tax, music and composition tax, organ transplant support fund revenues, contributions to watchable wildlife and centennial tree funds, and miscellaneous remittances.

Statement of Collections 1999-01 Biennium

Description	Fiscal Year 2000			Fiscal Year 2001			1999-01 BIENNIUM NET TOTAL
	Gross Collections	Refunds	Net Collections	Gross Collections	Refunds	Net Collections	
Sales & Use Tax	\$330,254,765.72	\$3,992,759.54	\$326,262,006.18	\$343,752,467.80	\$3,637,898.49	\$340,114,569.31	\$666,376,575.49
Motor Vehicle Excise Tax (1)	123,047.93	449.78	122,598.15	100,184.69	455.52	99,729.17	222,327.32
City Occupancy Tax	898,527.01		898,527.01	978,712.69		978,712.69	1,877,239.70
City Sales Tax	58,711,263.20		58,711,263.20	66,961,363.01		66,961,363.01	125,672,626.21
City Restaurant and Lodging Tax	2,006,045.62	12,651.63	1,993,393.99	2,226,937.94	28.26	2,226,909.68	4,220,303.67
Individual Income Tax	224,287,830.01	26,000,000.00 *	198,287,830.01	240,442,150.10	27,000,000.00 *	213,442,150.10	411,729,980.11
Corporate Income Tax	63,028,001.38	15,500,000.00 *	47,528,001.38	71,606,853.26	20,000,000.00 *	51,606,853.26	99,134,854.64
Financial Institutions Tax	9,658,183.02	604,089.00	9,054,094.02	12,203,978.84	1,376,484.00	10,827,494.84	19,881,588.86
Cigarette Tax (Cities)	1,414,711.93	8,193.60	1,406,518.33	1,339,189.64	129.13	1,339,060.51	2,745,578.84
Cigarette Tax (Tribe)	68,602.22		68,602.22	71,725.15		71,725.15	140,327.37
Cigarette Tax (GF)	19,359,085.85		19,359,085.85	18,326,369.89		18,326,369.89	37,685,455.74
Tobacco Tax	1,983,221.97	574.23	1,982,647.74	2,040,283.37		2,040,283.37	4,022,931.11
Oil & Gas Gross Production Tax	38,464,670.90	423,662.87	38,041,008.03	46,124,893.86	95,867.06	46,029,026.80	84,070,034.83
Oil Extraction Tax	22,033,670.58	1,009,693.48	21,023,977.10	25,942,727.45	1,148,730.14	24,793,997.31	45,817,974.41
Telecommunications Tax	8,627,127.41	25,021.81	8,602,105.60	9,128,022.68	29,806.31	9,098,216.37	17,700,321.97
Solid Waste Management Fund	0.00		0.00	0.00		0.00	0.00
Estate Tax	6,079,685.68		6,079,685.68	5,237,136.04		5,237,136.04	11,316,821.72
Miscellaneous Remittances	99,044.32		99,044.32	35,831.02		35,831.02	134,875.34
Coal Severance Tax	23,572,352.79		23,572,352.79	23,095,486.53		23,095,486.53	46,667,839.32
Coal Conversion Tax	15,387,068.05		15,387,068.05	16,443,620.47		16,443,620.47	31,830,688.52
Transmission Line Tax	410,582.25		410,582.25	410,582.25		410,582.25	821,164.50
Music and Composition Tax	78,211.44		78,211.44	90,049.79		90,049.79	168,261.23
Sales & Use Tax Cash Bonds	28,050.00	162,700.00	(134,650.00)	37,850.00	84,851.00	(47,001.00)	(181,651.00)
Fuel Dealers & Inspection Fees	39,655.00		39,655.00	46,615.00		46,615.00	86,270.00
Motor Vehicle Fuel Tax	75,186,789.16	1,790,000.00 *	73,396,789.16	74,961,755.74	2,340,000.00 *	72,621,755.74	146,018,544.90
Special Fuel Tax	39,630,796.06	1,090,000.00 *	38,540,796.06	40,899,115.19	835,000.00 *	40,064,115.19	78,604,911.25
Motor Fuel Tax - Cash Bond	4,500.00		4,500.00	500.00	3,500.00	(3,000.00)	1,500.00
Nongame Wildlife Fund	15,624.64		15,624.64	14,652.91		14,652.91	30,277.55
Centennial Tree Trust Fund	14,449.40	390.68	14,058.72	12,752.62	718.45	12,034.17	26,092.89
Organ Transplant Support Fund	16,417.66		16,417.66	15,280.86		15,280.86	31,698.52

TOTAL COLLECTIONS	\$941,481,981.20	\$50,620,186.62	\$890,861,794.58	\$1,002,547,088.79	\$56,553,468.36	\$945,993,620.43	\$1,836,855,415.01
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* Represents amounts transferred to refund reserve accounts - not actual refunds.

(1) Additional Motor Vehicle Excise Tax was collected by the ND Department of Transportation. Amounts collected by DOT were \$59,955,616.36 in FY00 and \$58,425,033.42 in FY01.

Net Collections For Fiscal Years Ended June 30, 1992 to 2001

TAX TYPE	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Sales and Use Taxes (1)	\$260,182,532	\$288,390,742	\$254,568,034 (2)	\$282,460,362 (2)	\$280,458,241 (2)	\$307,657,943 (2)	\$308,772,887 (2)	\$331,175,284 (2)	\$326,384,604 (2)	\$340,214,298 (2)
Individual Income Tax	119,034,850	125,059,419	138,879,059	141,923,858	152,087,864	163,732,247	177,904,251	181,389,034	198,287,830	213,442,150
Corporation Income Tax	36,778,251	42,525,921	50,727,400	44,027,738	49,047,417	50,300,520	65,543,025	57,877,194	47,528,001	51,606,853
Oil Extraction Tax	26,677,270	26,606,259	16,218,450	16,354,433	16,467,484	19,079,936	15,328,212	12,074,588	21,023,977	24,793,997
Gross Production Tax	32,517,549	29,792,007	22,118,770	23,787,276	26,905,996	34,772,117	29,521,309	22,705,995	38,041,008	46,029,027
Coal Taxes (3)	35,860,103	37,098,294	38,839,395	38,884,814	37,908,208	37,641,659	37,257,693	38,274,528	38,959,421	39,539,107
Motor Fuels Taxes (4)	78,568,187	80,662,903	85,549,102	89,495,693	96,044,324	103,727,317	105,131,399	103,050,448	111,937,585	112,685,871
All Other Taxes and Fees (5)	42,885,103	54,368,069	65,628,415	75,237,547	75,570,780	82,360,093	85,968,455	106,892,031	108,699,368	117,682,317
TOTAL NET COLLECTIONS	\$629,131,358	\$664,799,456	\$632,503,845	\$684,503,614	\$672,528,624	\$712,171,721	\$734,490,314	\$799,271,832	\$890,861,795	\$945,993,620

(1) Include sales and use tax, motor vehicle excise tax.

(2) Effective July 1, 1993 the Department of Transportation collected and deposited the majority of the motor vehicle excise tax collections. These collections are not included in the amounts listed here. DOT collections of motor vehicle excise tax totaled \$44,378,942 in FY-94, \$45,394,726 in FY-95, \$48,676,651 in FY-96, \$51,242,411 in FY-97, \$54,421,777 in FY-98, \$51,998,566 in FY-99, \$59,955,616.36 in FY00 and \$58,425,033.42 in FY01.

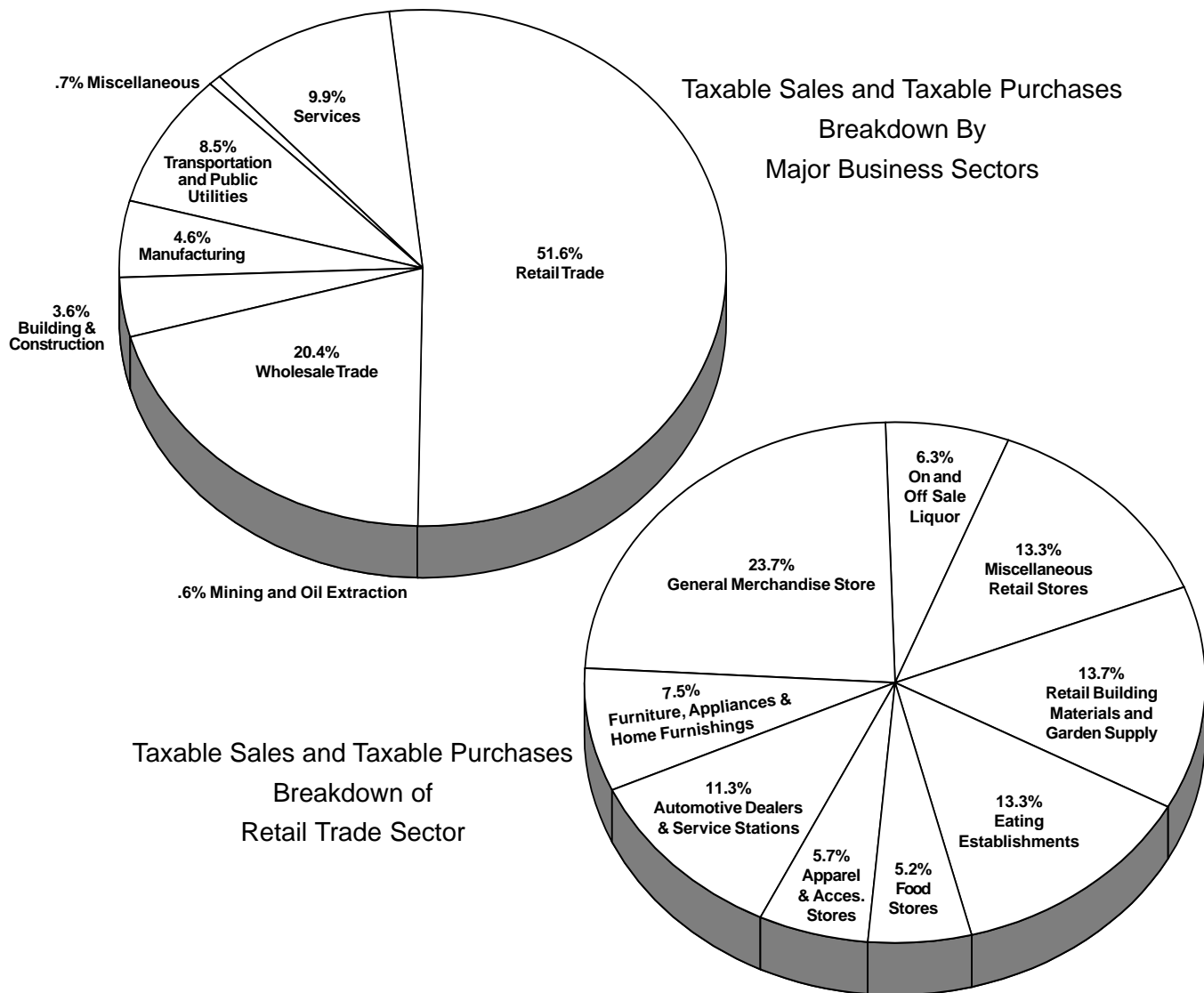
(3) Includes coal severance tax and coal conversion facilities privilege tax.

(4) Includes motor vehicle fuel and special fuel taxes.

(5) Includes cigarette tax, tobacco tax, estate tax, bank tax, transmission lines tax, city sales tax, city lodging tax, music and composition tax, sales and use tax and motor fuel tax cash bonds, motor fuel license fees, solid waste management fees, nongame wildlife contributions, organ transplant support contributions, drug tax, city restaurant and lodging, miscellaneous remittances, telecommunications tax, and contractor's highway tax.

SOURCE: Comparative Statement of Collections, Office of State Tax Commissioner.

Taxable Sales and Taxable Purchases in the 1999-01 Biennium



SOURCE: North Dakota Sales and Use Tax Quarterly Statistical Reports and North Dakota TX-1188 Records

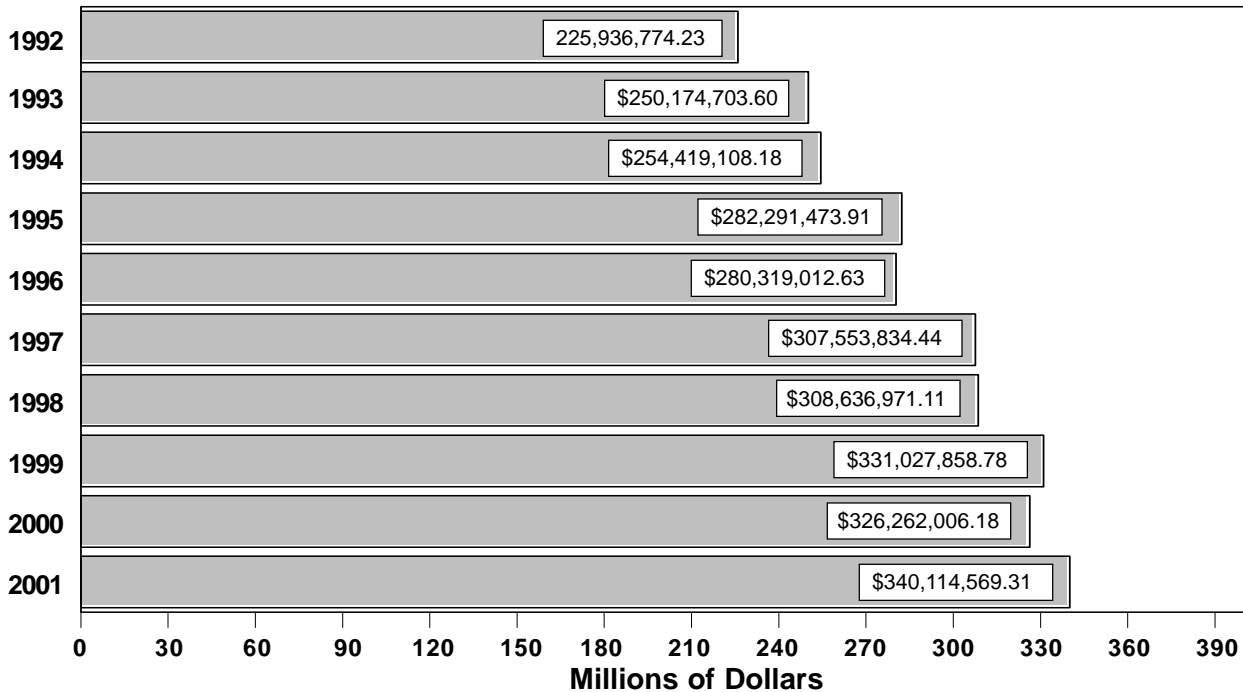
The sales tax is levied upon the gross receipts from retail sales of tangible personal property; furnishings or service of steam, gas and communication services; recreation and amusement receipts; magazines and periodicals; leasing or renting of hotel, motel or tourist court accommodations; leasing or renting of tangible personal property

The use tax is imposed upon any tangible personal property purchased at retail for storage, use, or consumption in this state and not subject to the North Dakota sales tax, unless otherwise exempt by law. Generally this tax applies on purchases of tangible personal property at retail outside North Dakota for use in this state when such purchases are made from a retailer who does not collect a sales and use tax. Many purchases made over the Internet are subject to the use tax. Under these circumstances, the purchaser must remit the tax directly to the North Dakota Tax Department.

Sales Tax permit holders are categorized through the use of the Standard Industrial Classification System, generally referred to as "SIC" codes. The SIC system is used by government and business throughout the United States to facilitate record keeping and the compilation of statistics regarding business and industry. The SIC system is being changed to a new system, the North Dakota Industrial Coding System, or NAICS. This system has not yet been adopted by the Office of State Tax Commissioner.

Sales and Use Tax Collections During Fiscal Years Ended June 30, 1992 to 2001

Fiscal Year



Distribution of Sales Tax Collections

	<u>Total Revenues</u>	<u>State General Fund</u>	<u>State Aid Distribution Fund</u>	<u>Capital Construction Fund</u>
Fiscal Year 1992	225,936,774.23	194,305,625.86	27,112,412.90	\$4,518,735.47
Fiscal Year 1993	250,174,703.60	215,650,734.89	30,020,940.58	4,503,028.13
Fiscal Year 1994	254,419,108.18	223,888,815.20	30,530,292.98	
Fiscal Year 1995	282,291,473.91	248,416,497.03	33,874,976.88	
Fiscal Year 1996	280,319,012.63	246,680,731.09	33,638,281.54	
Fiscal Year 1997	307,553,834.44	270,647,374.28	36,906,460.16	
Fiscal Year 1998*	308,636,871.11	271,606,220.79	37,030,650.32	
Fiscal Year 1999*	331,027,858.78	297,895,606.46	33,132,252.32	
Fiscal Year 2000	326,262,006.18	300,161,047.36	26,100,958.82	
Fiscal Year 2001	340,114,569.31	312,905,418.95	27,209,150.36	

*In addition to the revenue distributions shown here, there was a small amount of BTU tax revenue collected and deposited as a sales tax, but distributed as coal severance tax. BTU tax revenue totaled \$36,607.76 in FY 98 and \$59,906.06 in FY 99.

Sales and Use Tax

For taxable sales and purchases made after July 1, 1985, those businesses previously required to make monthly estimated payments were required to file monthly returns. Businesses required to file monthly returns continue to be allowed a deduction for administrative expenses of 1.5% of the tax up to a maximum of \$85.00 per month. The monthly filing deadline was moved from the 22nd day in the month following the sales month to the last day of the month following the sales month. However, the monthly filing due date for the May sales month of each odd-year remained on the 22nd day of June.

On January 1, 1987, the general sales and use tax rate was increased from 4% to 5%; the tax rate on liquor sales was increased from 5% to 6%; and the tax rate on farm machinery repair parts was reduced from 4% to 3%.

Effective July 1, 1987, the general sales and use tax rate was increased from 5% to 5.5%; the tax rate on farm machinery, farm machinery repair parts and new mobile homes was increased from 3% to 3.5% and the tax rate on sales of alcoholic beverages was increased from 6% to 6.5%. These law changes increased fiscal year 1988 collections.

On May 1, 1989, the general sales and use tax rate was increased to 6%; the tax rate on farm machinery, farm machinery repair parts and new mobile homes was increased to 4%; and the tax rate on alcoholic beverages was increased to 7%. A small portion of fiscal year 1989 collections is due to these rate increases.

Effective July 1, 1989, the sales tax base was broadened to include the furnishing of bingo cards, the sale of coffee, tea, cocoa, bottled water sold in containers of less than one gallon, and sales to state chartered credit unions. The 1989 Legislature also reduced the rate for equipment used in actual manufacturing of products (from testing to packaging), from 5.5% to 3%. The manufacturing company, however, must receive approval for the reduced rate or pay the tax and apply for a refund. The tax exemption for sales to residents of Montana was altered, exempting sales of \$50 or more. Additionally, Canadians were required to submit requests for refunds of sales tax paid.

In a Special Election December 5, 1989, the state's voters rejected two of the sales tax rate increases passed by the 1989 Legislature. The rate increases were in effect from May 1, 1989, through December 5, 1989. On December 6, 1989, the following rates were decreased:

- The general sales and use tax rate was decreased from 6% to 5%.
- The tax rate on farm machinery, farm machinery repair parts, and new mobile homes was decreased from 4% to 3%.

Effective July 1, 1991, manufacturing or processing machinery and equipment used by new or expanding manufacturers or agricultural producers was exempted from the 3% sales tax rate. Additionally, an exemption was created for production equipment in new, large lignite-burning power plants and for other tangible personal property used in construction of the power plant.

Effective January 1, 1993, the sales tax rate for natural gas was reduced from 5% to 4%, and was further reduced in 1% increments becoming 2% effective January 1, 1995.

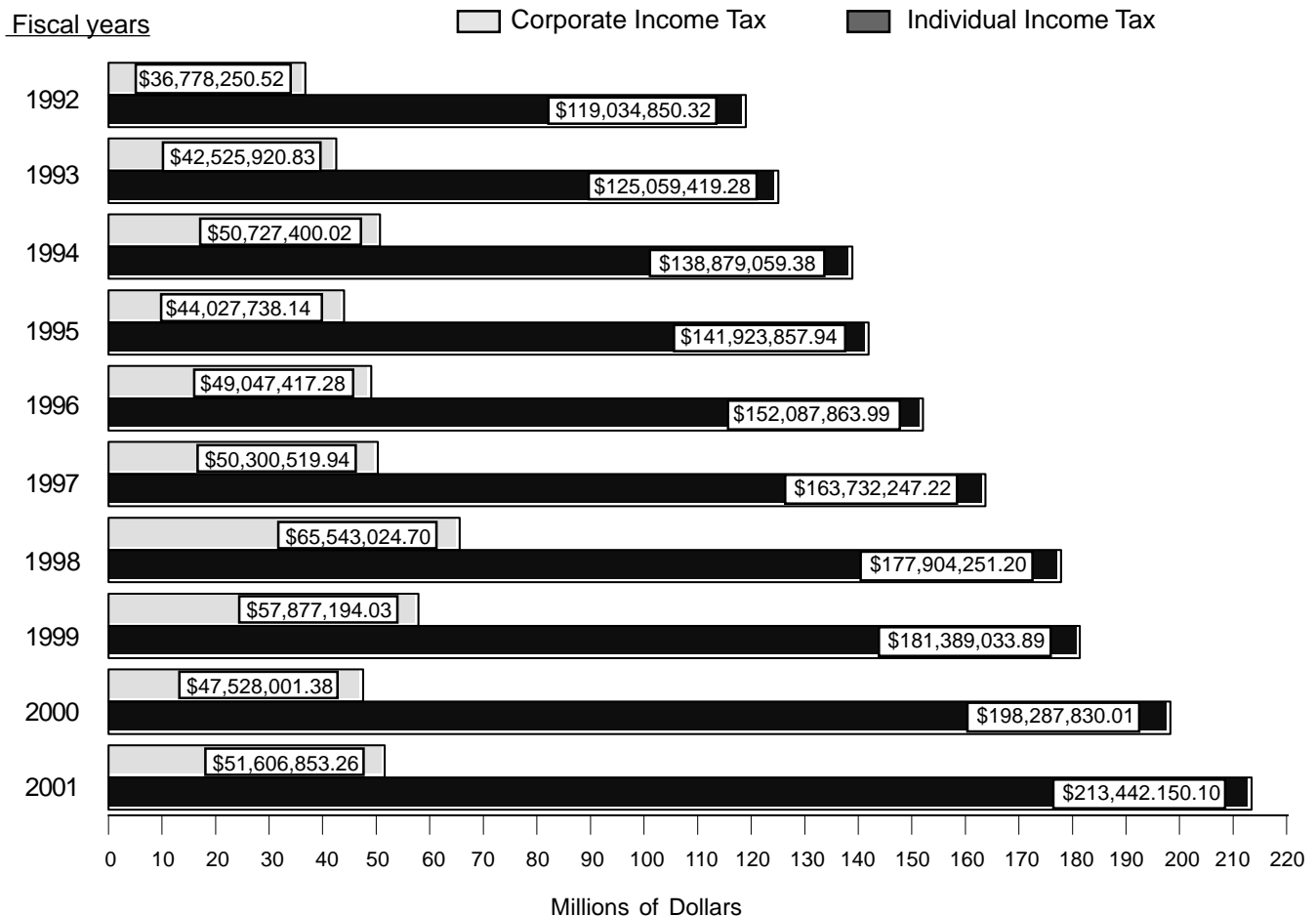
Effective July 1, 1993, the exemption for manufacturing machinery and equipment was broadened to include recycling machinery and equipment. The definition of what equipment qualifies for the manufacturing exemption was further broadened in a July 1994 special session to include all equipment utilized until final transportation from the site, and to include research and development equipment.

Effective July 1, 1995, the sale of recapping and retreading services for tires became subject to the sales tax.

Effective July 1, 1997, the exemption for purchases made by an out-of-state political subdivision was modified to include only those that exempt purchases made by a North Dakota political subdivision.

Effective May 1, 1999, the sales tax rate on used farm equipment and farm repair parts was decreased from 3% to 1.5%.

Net Individual and Corporate Income Tax Collections During Fiscal Years Ended June 30, 1992 to 2001



Individual Income Tax

The individual income tax rates remain at 14% of adjusted federal income tax liability for tax years 1992 through 2000. The gradual increase in collections is due primarily to growth in adjusted gross incomes in North Dakota and changes in federal taxes as a result of federal tax legislation.

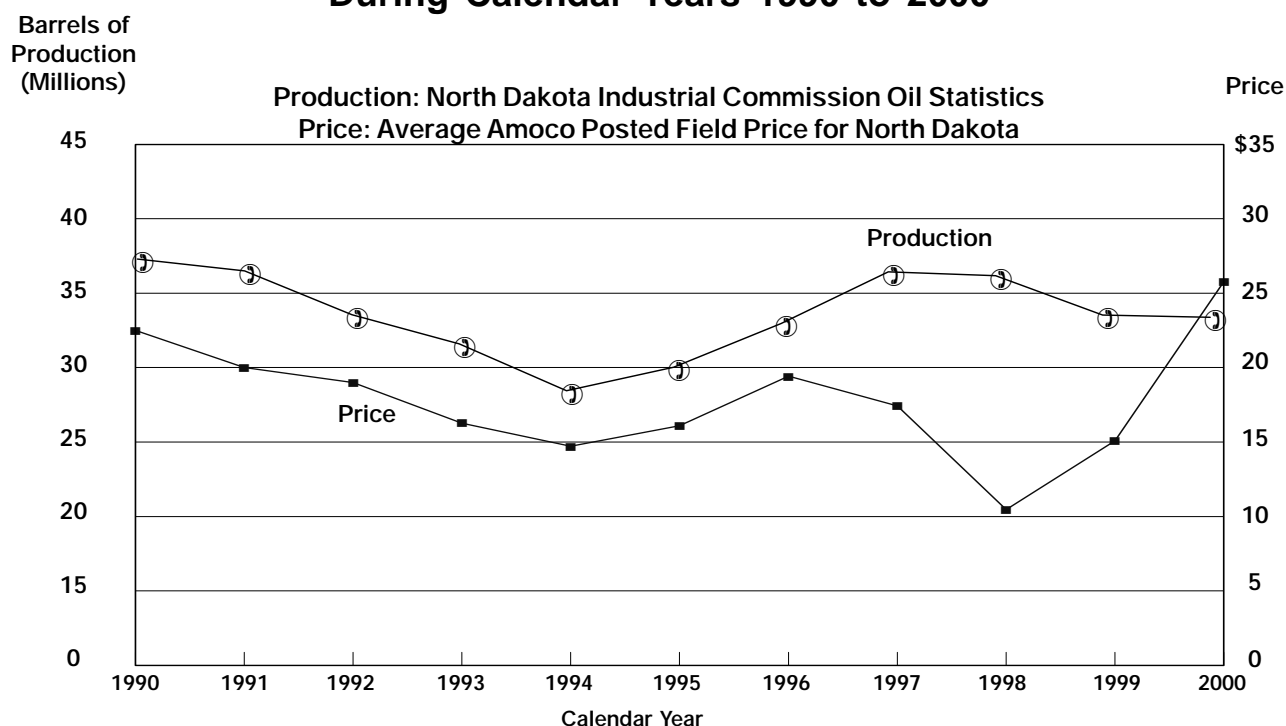
Individual income tax revenues are deposited in the State General Fund.

Corporate Income Tax

Corporation income tax revenues fluctuate in accordance with changes in national corporation profits and world oil prices. Audit collections also vary significantly from year to year.

Corporation income tax revenues are deposited in the State General Fund.

Annual Crude Oil Production in North Dakota and Domestic Oil Price Per Barrel During Calendar Years 1990 to 2000



Oil Extraction Tax

The oil extraction tax became effective January 1, 1981, as a result of an initiated measure passed by the citizens of North Dakota. The gross value of oil production at the well, less any part which is specifically exempt, was taxed at 6.5%.

The 1987 Legislative Assembly changed the oil extraction tax with respect to new wells, secondary and tertiary recovery projects, and low production (stripper) wells. Oil produced from new wells drilled and completed after April 27, 1987, was exempted from the oil extraction tax during the first 15 months following the well's completion. After the 15 month exemption period, the oil produced from the qualifying new well was subjected to a reduced oil extraction tax rate of 4%. The 4% tax rate may also apply to oil produced from a well in a qualifying secondary or tertiary recovery project. The legislature expanded the definition of stripper well property to allow more wells to qualify for the stripper well exemption.

Effective July 1, 1987, the oil extraction tax exemption for the private royalty interest was eliminated.

The 1989 Legislative Assembly provided a one year exemption from the oil extraction tax for qualifying work-over projects.

The 1991 Legislative Assembly provided a time-limited exemption from the oil extraction tax for incremental oil produced from an enhanced recovery project. Upon expiration of the exemption, incremental oil produced by the project qualifies for a 4% oil extraction tax rate. Nonincremental oil may qualify for a reduced tax rate of 4%.

The 1993 Legislative Assembly modified the definition of a qualifying work-over project. Upon completion of the work-over exemption, the project qualifies for a 4% oil extraction tax rate. The 1995 Legislature also modified exemptions and created new ones.

In the 1999-01 biennium, the oil extraction tax revenue was distributed according to a formula which allocated 60% of the revenue to the State General Fund, 20% to the Resources Trust Fund and 20% divided equally between the Common Schools Trust Fund and Foundation Aid Stabilization Fund. Any oil tax revenue in excess of \$62 million, in any given biennium, is transferred to the permanent oil taxes trust fund.

Distribution of Oil Extraction Tax Revenue 1999-01 Biennium

	RESOURCES TRUST & EDUCATION FUNDS	GENERAL FUND	PERMANENT OIL TRUST FUND	PENDING REFUNDS*	TOTAL
Fiscal Year 2000	\$ 8,310,406.68	\$ 12,713,570.42	\$ -0-	\$ 1,009,693.48	\$ 22,033,670.58
Fiscal Year 2001	10,111,899.48	10,853,064.67	3,829,033.16	1,148,730.14	25,942,727.45
99-01 Biennium	\$ 18,442,306.16	\$ 23,566,635.09	\$ 3,829,033.16	\$ 2,158,423.62	\$ 47,976,398.03

* This amount is the revenue from the fiscal year collections held for pending refunds. The actual refunds may be issued beyond the close of the fiscal year.

Oil and Gas Gross Production Tax Revenue 1999-01 Biennium

PRODUCING COUNTY	FISCAL YEAR 2000	FISCAL YEAR 2001	1999-01 BIENNIUM
Billings	\$5,784,824.58	\$7,456,265.26	\$13,241,089.84
Bottineau	1,980,685.14	2,882,283.36	4,862,968.50
Bowman	4,958,983.16	5,979,604.54	10,938,587.70
Burke	950,480.23	1,036,459.87	1,986,940.10
Divide	793,488.32	1,028,648.65	1,822,136.97
Dunn	1,159,025.14	1,673,328.35	2,832,353.49
Golden Valley	1,146,696.11	1,760,328.72	2,907,024.83
Hettinger	10,178.69	6,127.72	16,306.41
McHenry	34,435.26	39,623.66	74,058.92
McKenzie	6,598,169.83	7,904,636.99	14,502,806.82
McLean	84,203.31	90,161.36	174,364.67
Mountrail	548,519.98	545,600.86	1,094,120.84
Renville	834,272.52	911,384.36	1,745,656.88
Slope	286,736.05	288,205.60	574,941.65
Stark	7,908,646.86	8,238,667.99	16,147,314.85
Ward	105,220.53	108,635.12	213,855.65
Williams	4,843,543.38	6,070,157.47	10,913,700.85
SUBTOTAL	\$38,028,109.09	\$46,020,119.88	\$84,048,228.97
Unallocated	436,561.81	104,773.98	541,335.79
TOTAL REVENUE	\$38,464,670.90	\$46,124,893.86	\$84,589,564.76
DISTRIBUTION*			
Current Year Revenue	\$38,464,670.90	\$46,124,893.86	\$84,589,564.76
Dist. in Following FY	(6,088.45)	(5,644.39)	(11,732.84)
Dist. from Prior FY	7,854.88	6,088.45	13,943.33
Refunds & Adjustments	(423,881.92)	(96,398.62)	(520,280.54)
Available for Distribution	38,042,555.41	46,028,939.30	84,071,494.71
State General Fund	\$21,062,999.34	\$17,370,365.69	\$38,433,365.03
Permanent Trust Fund		9,350,264.89	
Oil Impact Grant Fund	2,535,743.69	2,669,998.13	5,205,741.82
Counties	14,443,812.38	16,638,310.59	31,082,122.97

* The distribution to the State General Fund represents the actual gross production tax revenue received by the State General Fund during each fiscal year of the biennium. The distribution to the counties, impact fund and the refunds may take place beyond the close of the fiscal year.

Oil and Gas Gross Production Tax

The gross value of oil production at the well, less any part which is specifically exempt, is taxed at a rate of 5% in lieu of property taxes on the oil and gas producing properties. Gas production is taxed on a volume basis at a rate determined by the movement of a fuels cost index. During fiscal year 2000, gas production was taxed at the rate of 4.05¢ per 1,000 cubic feet (MCF). In fiscal year 2001, the tax rate was 4.52¢ per MCF.

Thirty-three percent of the first one-fifth of the oil and gas gross production tax revenue is distributed to the Oil Impact Grant Fund. The remaining 67% of the first one-fifth of the tax revenue is distributed to the State General Fund. The remaining four-fifths of the tax revenue is distributed between the county in which the oil or gas is produced and the State General Fund according to the following distribution schedule: The first \$1 million each year is distributed 75% to the county and 25% to the State General Fund; the second \$1 million, 50% to the county, 50% to the State General Fund; amounts over \$2 million, 25% to the county, 75% to the State General Fund. However, the amount that any one county can receive from each fiscal year of production in the 1997-99 biennium is limited according to population as follows: population up to 3,000, no more than \$3.9 million; population between 3,000 and 6,000, no more than \$4.1 million; population of 6,000 and greater, no more than 4.6 million. When a county reaches its maximum amount allowed, the entire four-fifths share of subsequent revenue from fiscal year production is deposited in the State General Fund. The county allocation is apportioned as follows: 45% to the county general fund, 35% to the school districts within the county and 20% to the incorporated cities.

Any oil tax revenue in the State General Fund in excess of \$62 million in any given biennium is transferred to the Permanent Oil Taxes Trust Fund.

Coal Conversion Tax 1999-01 Biennium

Kilowatt Hours Produced During the 1999-01 Biennium

<u>County</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>
McLean	8,771,458,000	8,366,655,000
Mercer	14,658,439,459	14,954,400,239
Oliver	5,205,640,000	4,917,946,000
Total Kwh Produced	28,635,537,459	28,239,001,239

Distribution of Coal Conversion Tax Revenue - 1999-01 Biennium

<u>Distribution Fund</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>
Counties	\$2,896,330.72	\$3,262,187.99
State General Fund	<u>12,490,737.33</u>	<u>13,181,432.48</u>
Total Revenue Collected	\$15,387,068.05	\$16,443,620.47

Coal Conversion Facilities Tax: Generally, most facilities that process or convert coal are subject to the coal conversion facilities tax unless expressly exempted by statute. Electrical generating plants that have a single generating unit with the capacity of 120,000 kilowatts or more are subject to the coal conversion facilities tax. Effective July 1987 electrical generating plants became subject to two conversion tax levies. One levy is .25 mill times 60% of installed capacity times the number of hours in the taxable period. The revenue from this levy is distributed 65% to the State General Fund and 35% to the county in which the plant is located. The other levy is .25 mill per kwh of electricity produced for sale. The revenue from this levy is distributed to the State General Fund.

Also subject to the coal conversion facilities tax is the coal gasification plant. This tax is the greater of: (A) 2.5% of gross receipts, excluding revenues derived from by-products (up to a maximum of 20% of gross receipts) and revenue from synthetic natural gas produced in excess of 110 cubic feet per day, or (B) 7¢ on each 1,000 cubic feet of synthetic natural gas produced up to 110 million cubic feet per day. The U.S. Department of Energy operated the coal gasification plant from August 1, 1985, through October 31, 1988, during which time the plant was exempt from the coal conversion facilities tax. The plant was purchased by the Dakota Gasification Company, which began taxable production November 1, 1988. The new owner was exempt from the state's share (65%) of the tax for five years from the date of purchase because of provisions enacted by the 1987 Legislative Assembly. (This exemption expired October 31, 1993). Throughout the five year exemption from the state's share, the plant was subject to the county share of the tax (35%).

The 1989 Legislative Assembly enacted a special coal conversion facilities tax on coal beneficiation plants of 20 cents per ton of beneficiated coal produced for sale or 1¼% of gross receipts, whichever is greater. An exemption was made for beneficiated coal produced in excess of 80% of the plant design capacity.

The 1991 Legislative Assembly enacted a five-year exemption from part or all of the tax for new lignite-burning electrical generating plants.

The 1997 Legislative Assembly exempted from the Coal Conversion Facilities Tax the revenue from the sale of by-products, to a maximum of thirty-five percent of gross receipts, for a four-year period beginning January 1, 1997. Revenue from the sale and transportation of carbon dioxide for use in enhanced recovery of oil and natural gas was also exempted from this tax.

Coal Severance Tax 1999-01 Biennium

Tonnages Severed During the 1999-01 Biennium

Taxable Tons Severed:

<u>County</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>
Adams	0	0
Bowman	26,147	23,992
McLean	7,595,676	7,499,865
Mercer	17,835,486	17,398,636
Oliver	5,691,558	5,564,773
Williams	9,675	9,463
 Total Taxable Tons Severed	 31,158,542	 30,496,729
 Nontaxable Tons Severed	 41,970	 52,998

Distribution of Coal Severance Tax Revenue - 1999-01 Biennium

<u>Distribution Fund</u>	<u>Fiscal Year 2000</u>	<u>Fiscal Year 2001</u>
Counties (35%)	\$8,217,840.86	\$8,059,807.62
 Land Board (15%)	 3,521,931.69	 3,454,203.24
 State General Fund (50%)	 11,206,459.05	 10,967,395.07
 Lignite Research (add'l. 2¢ per ton)	 <u>626,121.19</u>	 <u>614,080.60</u>
 Total Revenue Collected	 \$23,572,352.79	 \$23,095,486.53

Coal Severance Tax

The Coal Severance Tax was enacted by the 1975 North Dakota Legislative Assembly. This tax is applied to coal severed from the ground on a rate per ton basis. The 1975 law provided for a 50¢ per ton with an escalator clause that increased the tax 1¢ per ton for each three point increase in the Wholesale Price Index. The 1975 law was made effective July 1, 1975.

The revenues collected during the 1975-77 biennium were distributed according to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 30% to a special trust fund to be administered by the State Land Board.
3. 5% to coal-producing counties.
4. 30% to the State General Fund.

The 1975 law was replaced with the 1977 law, changing the rate and distribution formula. The 1977 law, effective July 1, 1977, provided for a 65¢ per ton with an escalator clause that increased the tax 1¢ per ton on a quarterly basis for every one point increase in the Wholesale Price Index.

The 1977 law also changed the distribution of revenues to the following formula:

1. 35% to a special fund to be granted by the Impact Office to impacted political subdivisions.
2. 15% to a special trust fund to be administered by the State Land Board.
3. 20% to coal-producing counties.
4. 30% to the State General Fund.

The 1977 law was replaced with the 1979 law. The 1979 law, effective July 1, 1979, provided for an 85¢ per ton tax with an escalator that would increase the tax 1¢ per ton on a semi-annual basis for every four point increase in the Wholesale Price Index (now known as the Producer Price Index). The distribution of revenues remained the same.

The 1981 Legislative Assembly exempted from the coal severance tax coal used by the state or any of its political subdivisions and coal used for heating buildings within the state. Coal used for heating purposes became subject to the sales tax.

The 1985 Legislative Assembly exempted from the coal severance tax coal used in agricultural processing or sugar beet refining plants within North Dakota or adjacent states. Also, the tax rate was reduced by 50% for coal burned in a cogeneration facility designed to use renewable resources to generate 10% or more of its energy output.

The 1987 Legislative Assembly amended the coal severance tax law, removing the escalator clause and reducing the tax rate from \$1.04 to 75¢ per ton and enacting an additional temporary tax of 2¢ per ton dedicated to lignite research. The 1987 law also changed the distribution of the revenue to the following formula:

1. 15% to a special trust fund to be administered by the State Land Board
2. 35% to coal-producing counties
3. 50% to the State General Fund

The 1989 Legislative Assembly made the two cents per ton tax for lignite research a permanent tax. A resolution was passed which placed on the Primary Election ballot a constitutional amendment to allow up to 50% of the tax collected and deposited in the permanent trust fund during a biennium to be appropriated by the Legislative Assembly for lignite research, development and marketing. The measure was approved by the voters and became effective July 1, 1990.

The 1993 Legislative Assembly limited the amount of coal production on which a coal producing county has to share its severance tax with a nearby nonproducing county. The uses of the trust fund were expanded to include loans for school construction. Coal shipped out of state after June 30, 1995, and before July 1, 2000, was made exempt from the state's 50% portion of the tax; counties may grant a partial or complete exemption from the county's 35% portion. A constitutional amendment was placed on the June 1994 Primary Election ballot that allowed appropriations from the trust fund for clean coal demonstration projects approved by the North Dakota Industrial Commission and the United States Department of Energy. The amendment was approved by the voters.

Transmission Line Tax Collections

	<u>1997-99 Biennium</u>		<u>1999-01 Biennium</u>	
	<u>FY-1998</u>	<u>FY1999</u>	<u>FY-2000</u>	<u>FY-2001</u>
Transmission. Line Tax	\$410,568.75	\$410,582.25	\$410,582.25	\$410,582.25

Collections represent payments made by cooperatives that owned or operated electrical transmission lines of 230 kilovolts or larger. They were taxed at the rate of \$225.00 per mile.

SOURCE: Property Tax Division, Office of State Tax Commissioner

Rural Electric Cooperatives and Mutual and Cooperative Telephone Companies

Rural electric cooperatives are nonprofit cooperative corporations engaged in the distribution or transmission of electric energy primarily for consumption in rural areas. Rural electric cooperatives also include those nonprofit cooperative corporations engaged in the generation of electric energy primarily for consumption in rural areas. The electrical energy generating units of such plants are under 100,000 kilowatts of generating capacity. Such plants are taxable pursuant to N.D.C.C. ch. 57-33.

Rural electric cooperatives are taxed at 1% of their gross receipts each year for the first 5 years and 2% each year thereafter in lieu of taxes on all property except land. The tax of each rural electric cooperative is certified by the Tax Commissioner to the counties for collection and is allocated by the county auditor to the taxing district in which the rural electric line or plant is located.

Through 1997, mutual and cooperative telephone companies were taxed at a graduated rate determined by the number of telephone stations per mile. The tax was in lieu of taxes on all property used in telephone operations. The tax of each company was certified by the Tax Commissioner to the counties and apportioned to the school districts in which its telephones were located.

Beginning with tax year 1998, all telecommunications companies including mutual and cooperative telephone companies pay a gross receipts tax at the rate of 2½ percent of adjusted gross receipts. The tax is payable to the State Tax Commissioner and is in lieu of all real and personal property taxes on property directly used by a telecommunications carrier in its telecommunications operations. There is a standing appropriation of \$8.4 million which the State Treasurer distributes annually to counties and their political subdivisions according to a statutory formula, regardless of the amount generated by the gross receipts tax.

Taxes Certified for Collection for the Years: *

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Rural Electric Cooperative	\$6,084,681.26	\$5,878,494.96	\$5,779,347.79	\$5,781,209.79
Mutual & Co-op Telephone Co.	\$1,138,836.24	\$-0-	\$-0-	\$-0-
Telecommunications Tax Assessed		\$8,286,431.33	\$8,617,396.77	\$9,125,030.04

*These taxes are certified in the fall of the indicated years and payable in the following year.

SOURCE: Property Tax Division, Office of State Tax Commissioner

Financial Institutions Tax

The 1997 North Dakota Legislature passed legislation changing the tax law covering financial institutions. The legislation repealed North Dakota Century Code chs. 57-35, 57-35.1 and 57-35.2, and replaced them with a new chapter, N.D.C.C. ch. 57-35.3. The legislation is effective for taxable years beginning on or after January 1, 1997.

The tax under N.D.C.C. ch. 57-35.3 is imposed on every financial institution for the privilege of transacting business in North Dakota. The definition of financial institution includes not only banking entities, but also bank holding companies, production credit associations and leasing companies.

In general, the tax liability of the financial institution is determined by multiplying North Dakota taxable income by seven percent (7%). This amount, which may not be less than fifty dollars (\$50.00), is divided between the state general fund and the financial institution tax distribution fund for eventual distribution to the counties. The state general fund receives 2/7's of the tax while the financial institutions tax distribution fund receives 5/7's of the tax. The state general fund portion of the tax must be paid on or before April 15 following the end of the taxable year. The financial institution tax distribution fund portion of the tax must be paid on or before January 15 of the second year following the taxable year.

Financial Institutions Tax Collections

1999-01 Biennium

	<u>FY 2000</u>	<u>FY-2001</u>
Total Net Collections	\$ 9,054,094.02	\$ 10,827,494.84
State General Fund	\$ 2,382,211.16	\$ 3,082,743.84
Financial Institution Distribution Fund	\$ 6,671,882.86	\$ 7,744,751.00

(Note: Although the former Business Privilege Tax was repealed and replaced by the Financial Institutions Tax, a small amount of Business Privilege Tax was collected during this biennium and is included in the amounts shown above. Collections of Business Privilege Tax totaled \$1,384.16 in FY-00 and \$1,583.00 in FY-01.)

Cigarette and Tobacco Products Net Tax Collections

	<u>1997-99 Biennium</u>		<u>1999-01 Biennium</u>	
	<u>FY-1998</u>	<u>FY-1999</u>	<u>FY-2000</u>	<u>FY-2001</u>
3¢ per package cigarette tax distributed to cities on population basis	\$1,523,298.17	\$1,440,232.42	\$1,406,518.33	\$1,339,060.51
41¢ per package cigarette tax distributed to State General Fund	\$20,818,414.96	\$19,478,793.94	\$19,333,389.49	\$18,299,503.76
28% of the wholesale price of tobacco products distributed to State General Fund	\$1,847,893.89	\$1,889,425.07	\$1,982,647.74	\$2,040,283.37

The cigarette tax was increased effective July 1, 1993, increasing the State General Fund Tax from 26¢ to 41¢ per package. The tobacco products tax distributed to the State General Fund also increased effective July 1, 1993, from 22% to 28% of the wholesale purchase price.

Standing Rock Sioux Tribe Cigarette and Tobacco Tax:

	<u>1997-99 Biennium</u>		<u>1999-01 Biennium</u>	
	<u>FY-1998</u>	<u>FY-1999</u>	<u>FY-2000</u>	<u>FY-2001</u>
Amount distributed to the Tribe	\$75,534.03	\$75,684.05	\$68,602.22	\$71,725.15
Amount distributed to the State General Fund	\$28,292.83	\$28,348.99	\$25,696.36	\$26,866.13

The Office of State Tax Commissioner acts as an agent for the Tribe in the collection of a tribal cigarette and tobacco tax. The tax rates are identical to the state cigarette and tobacco tax rates. Seventy-five percent of the collection, less a 3% administrative fee is returned to Standing Rock Sioux Tribe. The administrative fee plus 25% of the collections are deposited into the State General Fund.

SOURCE: Comparative Statement of Collections, Office of State Tax Commissioner.

Airline Tax

Operating real property of air transportation companies is assessed by the State Board of Equalization. The taxes are computed by the Tax Commissioner and certified to the State Treasurer for collection. The taxes upon air transportation companies are allocated by the State Treasurer to the city or municipal airport authority where each company makes regularly scheduled landings according to the ratio that the value of the company's assessable property at a given city or municipal airport bears to the total value of the company's assessable property located in North Dakota.

TAXES CERTIFIED TO STATE TREASURER FOR THE YEARS: *

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Airlines	\$172,345.47	\$194,640.14	\$220,425.60	\$204,809.80

* Airline assessments of real property are determined by the State Board of Equalization in August of each year. The tax due amounts are computed in the spring of the following year using the average mill rate for cities operating airports served by scheduled airlines.

SOURCE: Property Tax Division, Office of State Tax Commissioner.

Aviation Fuel, Motor Vehicle Fuel, and Special Fuel Taxes Collections and Disbursements 1999-2001 Biennium

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Collections - Tax, Penalty, Interest, & Fees	FY-2000 Dollars	FY-2001 Dollars
Aviation Fuel:		
Aviation Gasoline - at \$.08 Per Gallon	\$233,396.47	\$232,948.36
Jet Fuel - at \$.08 Per Gallon	887,940.51	852,730.89
Penalty and Interest	136.71	4,878.45
<i>Total Collections</i>	\$1,121,473.69	\$1,090,557.70
Total Refunded	426,187.04	338,659.26
<i>Net Collections</i>	\$695,286.65	\$751,898.44
Motor Vehicle Fuel:		
Gasoline - at \$.21 Per Gallon	\$65,263,502.10	61,620,383.63
Gasohol - at \$.21 Per Gallon	9,481,566.44	12,930,039.34
Penalty and Interest	38,505.47	23,609.67
<i>Total Collections</i>	\$74,783,574.01	\$74,574,032.64
Total Refunded	2,332,255.55	2,166,330.27
<i>Net Collections</i>	\$72,451,318.46	\$72,407,702.37
Special Fuel:		
Diesel-Heating-Kerosene-Propane - at \$.21 Per Gallon	\$33,763,460.93	\$33,091,985.71
Diesel-Heating-Kerosene-Propane - at 2% of Selling Price	4,652,789.58	6,566,022.92
Penalty and Interest	30,335.33	24,098.60
<i>Total Collections</i>	\$38,446,585.84	\$39,682,107.23
Total Refunded	870,384.70	1,000,839.57
<i>Net Collections</i>	\$37,576,201.14	\$38,681,267.66
Consolidated Laboratories Inspection Fees:		
From Motor Vehicle Fuel	\$93,909.65	91,298.59
From Special Fuels (except propane)	93,567.86	95,242.06
<i>Total Collections</i>	\$187,477.51	\$186,540.65
License Fees:		
Aviation Fuel Tax Licenses	\$1,420.00	80.00
Motor Vehicle Fuel Tax Licenses	360.00	560.00
Special Fuels (Diesel-Heating-Kerosene) Tax Licenses	520.00	1,140.00
Liquefied Petroleum Gas Tax Licenses	620.00	180.00
Motor Carrier Temporary Trip Permits	36,735.00	44,655.00
<i>Total Collections</i>	\$39,655.00	\$46,615.00
Cash Bonds:	\$4,500.00	500.00
Standing Rock Sioux Tribal Tax Collections:		
Gasoline/Gasohol - at \$.21 Per Gallon	\$260,409.82	296,424.51
Diesel Fuel - at \$.21 Per Gallon	18,064.35	31,208.20
<i>Total Collections</i>	278,474.17	\$327,632.71
Grand Total of Collections	114,861,740.22	115,907,985.93
Grand Total of Refunds	3,628,827.29	3,505,829.10
Grand Total of Net Collections	111,232,912.93	112,402,156.83

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Disbursements		
Aeronautics Commission Special Fuel (4% of Price)	309,894.70	344,355.98
Aeronautics Commission Special Fuel (\$.08 Per Gallon)	442,998.99	321,281.72
Highway Distribution	103,706,616.29	104,669,013.12
Highway Distribution (Earmarked for Ethanol Production Incentive)	166,563.19	153,103.73
Township Highway Aid Fund	5,193,618.40	5,119,575.94
Agricultural Products Utilization Commission	335,040.21	308,263.16
Agricultural Research Fund	666,252.76	612,414.92
Refund Reserve Accounts	2,880,000.00	3,175,000.00
General Fund	187,477.51	186,540.65
Cash Bonds	4,500.00	500.00
Operating Expense Fund	690,304.00	690,304.00
Standing Rock Sioux Tribe	278,474.17	327,632.71
<i>Total Disbursements</i>	114,861,740.22	115,907,985.93

Aviation Fuel, Motor Vehicle Fuel, and Special Fuel Taxes Taxable Gallons 1999-2001 Biennium

Aviation Fuel, Motor Vehicle Fuel, & Special Fuel Taxable Gallons	FY-2000 Dollars	FY-2001 Dollars
Aviation Fuel:		
Aviation Gasoline - at \$.08 Per Gallon	\$2,842,702	\$2,764,883
Jet Fuel - at \$.08 Per Gallon	10,795,784	10,396,114
<i>Total Taxable Gallons</i>	\$13,638,486	\$13,160,997
Gallons on Which Tax was Refunded	8,843,977	8,532,630
<i>Net Taxable Gallons</i>	\$4,794,509	\$4,628,367
Motor Vehicle Fuel:		
Gasoline - at \$.21 Per Gallon	\$318,129,005	299,329,935
Gasohol - at \$.21 Per Gallon	46,343,023	63,281,947
<i>Total Taxable Gallons</i>	\$364,472,028	\$362,611,882
Gallons on Which Tax was Refunded	17,610,696	16,117,349
<i>Net Taxable Gallons</i>	\$346,861,332	\$346,494,533
Special Fuel:		
Diesel-Heating-Kerosene-Propane - at \$.21 Per Gallon	\$162,411,793	\$159,884,499
Diesel-Heating-Kerosene-Propane - at 2% of Selling Price	294,285,846	317,956,120
<i>Total Taxable Gallons</i>	\$456,697,639	\$477,840,619
Gallons on Which Tax was Refunded	4,658,342	341,613
<i>Net Taxable Gallons</i>	452,039,297	477,499,006
Grand Total of Taxable Gallons	834,808,153	853,613,498
Grand Total of Gallons on Which Tax was Refunded	31,113,015	24,991,592
Grand Total of Net Taxable Gallons	803,695,138	828,621,906

Aviation Fuel: A per gallon tax is levied on all aviation fuel. For this biennium the tax was \$.08 per gallon. Consumers purchasing aviation fuel for use in aircraft may request a refund of the \$.08 per gallon tax. When a refund is granted, the consumer is assessed a tax of 4% of the price of the fuel. The 4% tax is assessed in lieu of the \$.08 per gallon tax and is deducted from the refund.

Motor Vehicle Fuel: A per gallon tax is levied on all motor vehicle fuel (gasoline and gasohol). For this biennium the tax was \$.21 per gallon. The tax is refundable when the fuel is used in nonlicensed equipment for an agricultural, industrial or railroad purpose. Refunds to industrial consumers are reduced by \$.015 per gallon. Of the \$.015 per gallon withheld, \$.01 per gallon is Township Highway Aid Fund revenue and \$.005 per gallon is deposited into the Agriculturally Derived Fuel Tax Fund. Refunds to agricultural consumers are reduced by \$.08 per gallon. Of the \$.08 per gallon withheld, \$.01 per gallon is Township Highway Aid Fund revenue, \$.01 per gallon is earmarked for ethanol production incentives, \$.02 per gallon is deposited into the Agriculturally Derived Fuel Tax Fund, and \$.04 per gallon is deposited into the Agricultural Research Fund.

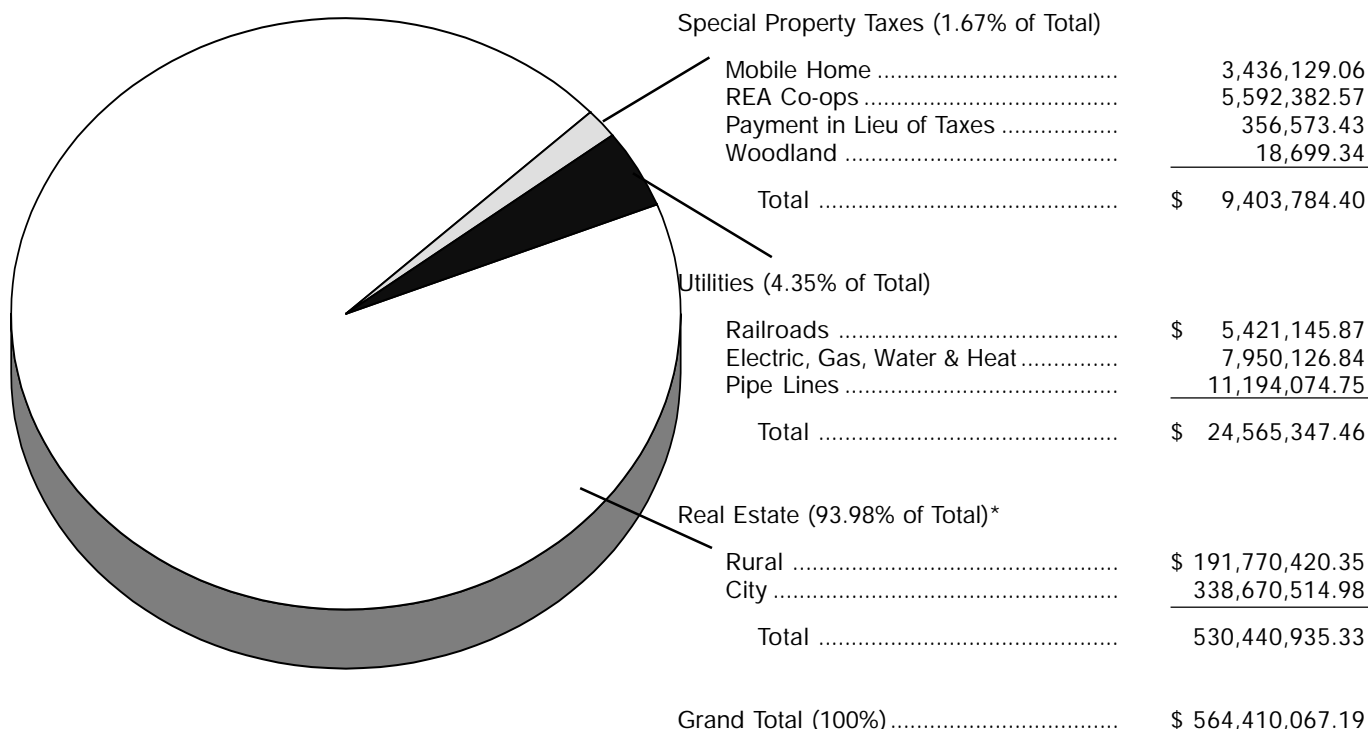
Special Fuels: A per gallon tax is levied on propane and kerosene used in licensed vehicles and on all clear diesel and heating fuels. For this biennium the tax was \$.21 per gallon. A tax of 2% is levied on propane and kerosene exempt from the per gallon tax and on all dyed diesel and heating fuels. Special fuel taxes are not refundable.

Administration: The fuel taxes are administered by the Tax Commissioner. The Motor Fuel Tax Section is part of the Sales and Special Taxes Division. A portion of the motor fuel tax collections are set aside in an operating fund for the administration of the tax. The remaining tax collections are transferred to the funds listed under the tax disbursement section.

Tribal Taxes: The Standing Rock Sioux Tribe passed an ordinance imposing a \$.21 per gallon motor vehicle fuel tax and a \$.21 per gallon special fuel tax. The ordinance has been in place since January 1, 1999. The State of North Dakota and the Office of State Tax Commissioner entered into an agreement to collect the tax for the Tribe.

Sources of General Ad Valorem Property Taxes, Special Property Taxes and Special Assessments

(Levied in 2000 - Payable in 2001)



* Includes all special assessments.

Source: Report of 2000 Property Valuations and Property Taxes Levied in North Dakota compiled by the Office of State Tax Commissioner.

Property Tax

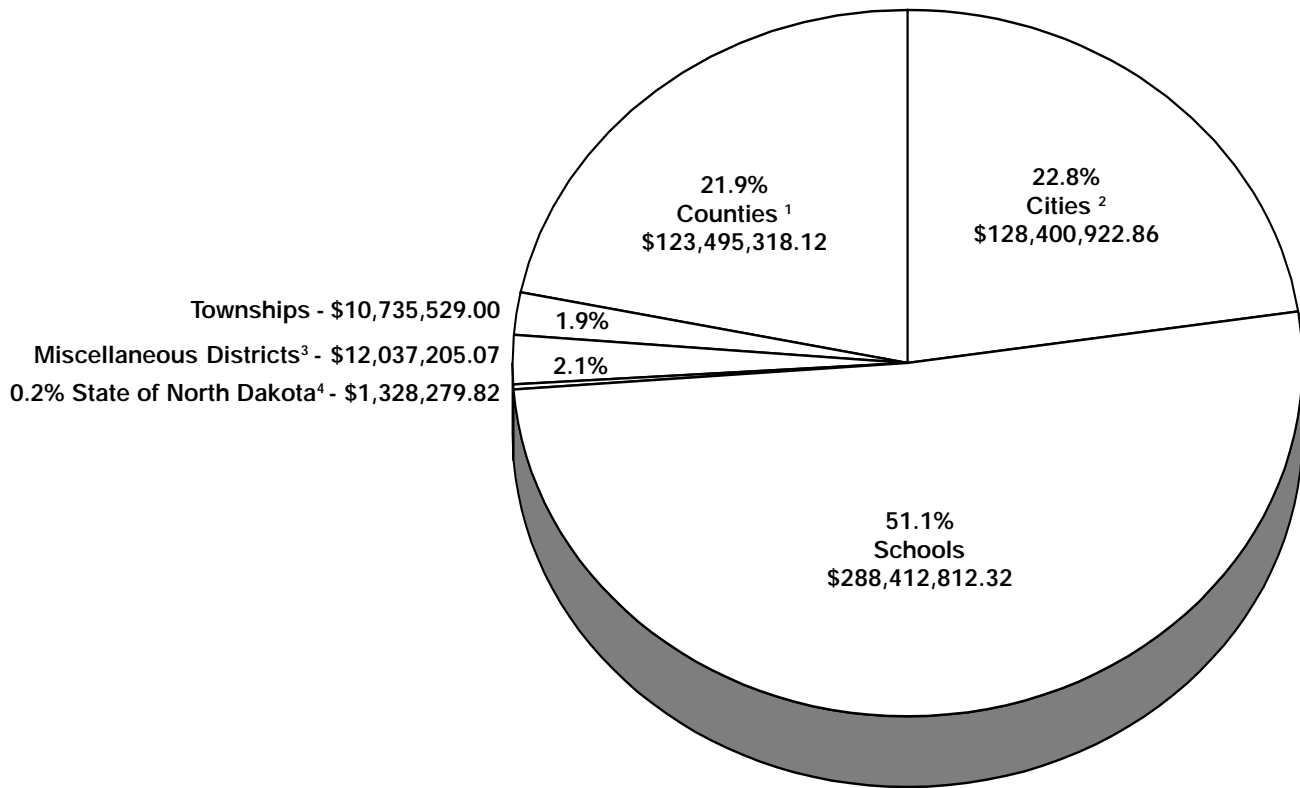
Real property owned by a corporation, partnership, individual, estate or trust is subject to a tax based on its valuation. The property tax, except the tax on the operating property of railroads and other utilities, is assessed locally. The property tax is collected and distributed by the county to the county, cities, townships, school districts, and other taxing districts. The North Dakota Century Code has provided that assessments be at true and full value and that assessed value be computed at 50% of true and full value. Also, true and full value of agricultural property is based upon productivity. Beginning with taxes levied in 1981 (payable in 1982) and thereafter, the assessed value is 50% of true and full value and taxable value is a percentage of assessed value according to the percentages established by the Legislature for the various classes of property as follows: residential property at 9%, commercial, railroad and airline property at 10% and agricultural property at 10%. Taxable value of centrally assessed property was at 14% for 1981 and was reduced each year to 10% in 1985 and thereafter.

The assessed valuation of railroad and public utility property is centrally determined by the State Board of Equalization. Rural electric cooperatives and all telecommunications companies are subject to a gross receipts tax.

Also, instead of a property tax, large electrical generating plants are subject to a tax on installed capacity and electricity produced for sale through the coal conversion facilities privilege tax. Large cooperative-owned transmission lines are taxed on a per mile basis. The taxes on electrical production and large transmission lines are not included in the above.

Distribution of General Ad Valorem Property Taxes Special Property Taxes and Special Assessments

(Levied in 2000 - Payable in 2001)



Grand Total - \$564,410,067.19

- ¹ Including County Park Districts, County Library, County Airport, Unorganized Township, Water Resource and Joint Water Resource District.
- ² Including City Park Districts, City Special Assessments, and tax increments.
- ³ Garrison Diversion, Rural Fire Districts, Southwest Water Authority, Soil Conservation Districts, Rural Ambulance Districts, Hospital District, Recreation Service Districts and All Special Assessments for Rural Districts.
- ⁴ Constitutional one mill levy for the Medical Center at the University of North Dakota.

Source: Report of 2000 Property Valuations and Property Taxes Levies in North Dakota compiled by the Office of State Tax Commissioner.

Property Tax Refunds & Credits For Senior Citizens and Persons with Permanent and Total Disabilities

<u>Tax Year</u>	<u>Number of Persons Receiving Renter's Refunds</u>	<u>Homeowner Number of Homeowner's Credit</u>	<u>Taxable Value of Property Exempted</u>
1986	1,993	7,518	5,878,944
1987	1,991	7,540	5,725,073
1988	1,866	7,546	5,689,142
1989	1,752	7,307	5,418,275
1990	1,656	7,188	5,628,996
1991	1,601	7,029	5,298,253
1992	1,582	6,743	4,988,474
1993	1,563	6,576	4,757,575
1994	1,626	6,376	4,658,875
1995	1,590	6,095	4,688,586
1996	1,499	5,680	2,238,982
1997	1,482	5,278	2,139,343
1998	1,454	4,943	2,025,494
1999	1,508	4,457	1,817,552
2000	1,417	4,231	1,814,130

The North Dakota Legislature has provided a homestead property tax credit program since 1969. Persons 65 years of age or older, or totally and permanently disabled, who meet the requirements of the program are eligible to receive a credit to reduce property taxes on their home. Qualified renters receive a partial refund of their rent. Since 1977 the maximum income eligibility limit has been adjusted by the Legislature as follows: from \$8,000 to \$9,000 in 1979, to \$10,000 in 1981, to \$12,000 in 1985, to \$13,000 in 1989, to \$13,500 in 1995, and to 14,000 in 1999.

The credit for eligible homeowners is a reduction in the taxable value of the homestead as determined by the following schedule:

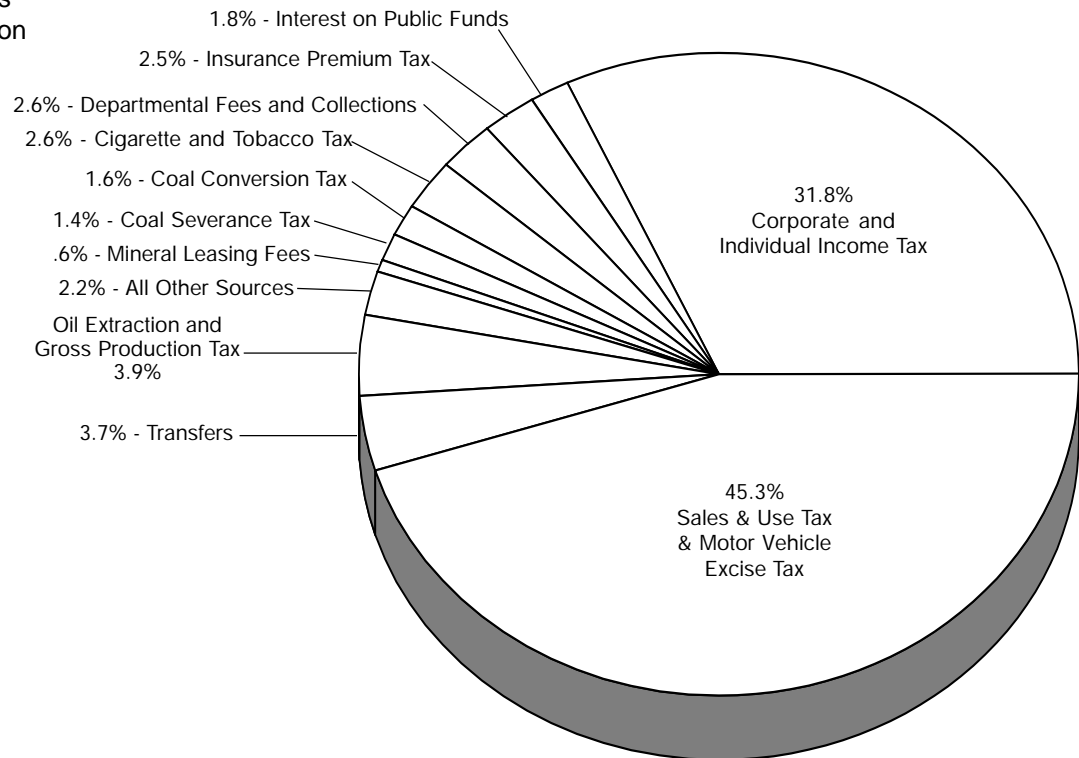
For Taxes Levied in 1999 and 2000 (Payable in 2000 and 2001)

<u>Income of</u>	<u>Reduction</u>	<u>Maximum Reduction</u>
\$ 0 - \$ 8,000	100%	\$2,000
\$ 8,001 - \$ 9,500	80%	1,600
\$ 9,501 - \$ 11,000	60%	1,200
\$ 11,001 - \$ 12,500	40%	800
\$ 12,501 - \$ 14,000	20%	400

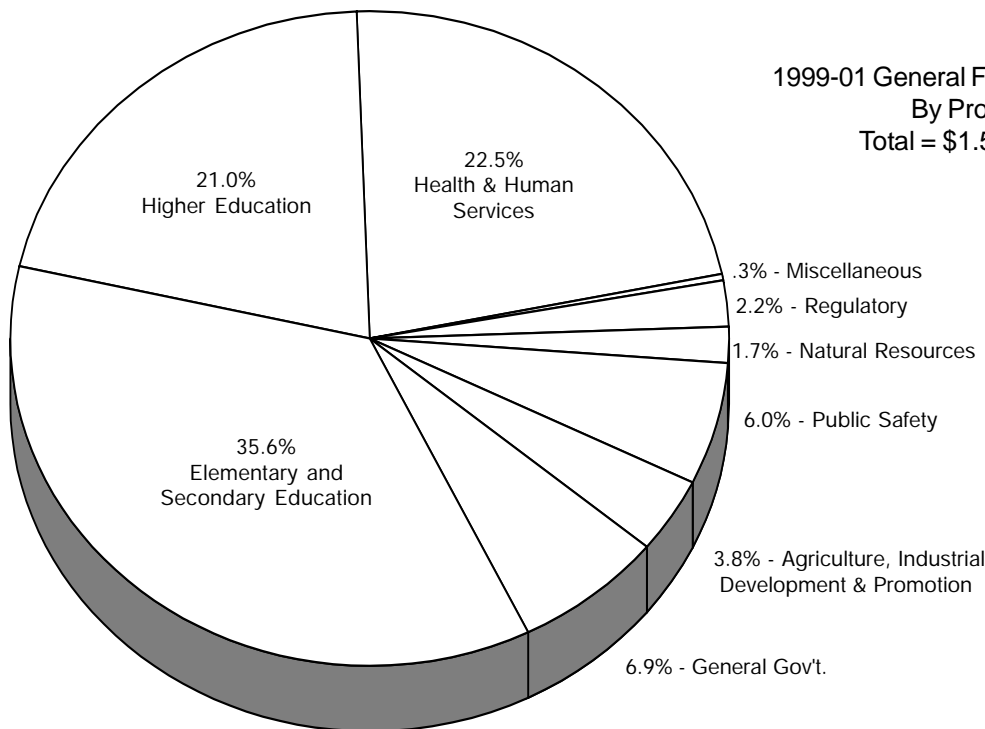
Eligible renters will receive a refund for overpayment of rent when 20% of their total annual rent exceeds 4% of their total annual income. Charges for such services as heat, light and furniture must be excluded when determining the annual rent payment for the purposes of renter's refund. The maximum refund allowable to a renter is \$240.

State General Fund Revenues and Expenditures in the 1999-01 Biennium

1999-01 General Fund
Revenue Sources
Total = \$1.595 Billion



1999-01 General Fund Expenditures
By Program
Total = \$1.591 Billion



SOURCE: Office of Management and Budget, November 2001.

Statement of Expenditures 1999-01 Biennium

Description	Commissioners Division	Legal Division	Controllers Division	Sales & Special Taxes Division	Income & Oil Taxes Division	Property & Utility Taxes Division	TOTAL																																																																																																																																																																																
Salaries and Wages																																																																																																																																																																																							
FY 00	853,719.12	269,782.33	1,071,613.52	1,596,556.71	1,470,307.65	282,687.84	5,544,667.17																																																																																																																																																																																
FY 01	1,037,947.41	250,817.84	1,051,336.28	1,647,402.63	1,508,333.80	280,419.53	5,776,257.49	Information Services								FY 00	751,454.99	2,499.35	18,008.92	17,407.08	18,402.76	2,865.53	810,638.63	FY 01	664,014.83	2,327.30	18,970.18	20,327.78	18,710.32	2,810.75	727,161.16	Operating Expenses								FY 00	125,606.46	35,773.30	450,613.53	142,557.06	329,666.50	11,347.26	1,095,564.11	FY 01	66,200.14	37,675.68	418,300.48	131,690.80	323,946.87	10,608.22	988,422.19	Equipment								FY 00	108,893.00	.00	10,865.00	.00	.00	.00	119,758.00	FY 01	217,293.21	.00	778.60	.00	.00	.00	218,071.81	Information Technology Projects								FY 00	213,558.50						213,558.50	FY 01	477,774.18						477,774.18	City Sales Administration								FY 00				6,018.84			6,018.84	FY 01				43,981.16			43,981.16	Motor Fuels Federal Grant								FY 00				23,789.80			23,789.80	FY 01				8,691.96			8,691.96	TOTAL								FY 00	2,053,232.07	308,054.98	1,551,100.97	1,786,329.49	1,818,376.91	296,900.63	7,813,995.05	FY 01	2,463,229.77	290,820.82	1,489,385.54	1,852,094.33	1,850,990.99	293,838.50	8,240,359.95	TOTAL 99-01	4,516,461.84	598,875.80	3,040,486.51	3,638,423.82	3,669,367.90	590,739.13	16,054,355.00
Information Services																																																																																																																																																																																							
FY 00	751,454.99	2,499.35	18,008.92	17,407.08	18,402.76	2,865.53	810,638.63																																																																																																																																																																																
FY 01	664,014.83	2,327.30	18,970.18	20,327.78	18,710.32	2,810.75	727,161.16	Operating Expenses								FY 00	125,606.46	35,773.30	450,613.53	142,557.06	329,666.50	11,347.26	1,095,564.11	FY 01	66,200.14	37,675.68	418,300.48	131,690.80	323,946.87	10,608.22	988,422.19	Equipment								FY 00	108,893.00	.00	10,865.00	.00	.00	.00	119,758.00	FY 01	217,293.21	.00	778.60	.00	.00	.00	218,071.81	Information Technology Projects								FY 00	213,558.50						213,558.50	FY 01	477,774.18						477,774.18	City Sales Administration								FY 00				6,018.84			6,018.84	FY 01				43,981.16			43,981.16	Motor Fuels Federal Grant								FY 00				23,789.80			23,789.80	FY 01				8,691.96			8,691.96	TOTAL								FY 00	2,053,232.07	308,054.98	1,551,100.97	1,786,329.49	1,818,376.91	296,900.63	7,813,995.05	FY 01	2,463,229.77	290,820.82	1,489,385.54	1,852,094.33	1,850,990.99	293,838.50	8,240,359.95	TOTAL 99-01	4,516,461.84	598,875.80	3,040,486.51	3,638,423.82	3,669,367.90	590,739.13	16,054,355.00																								
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FY 01	66,200.14	37,675.68	418,300.48	131,690.80	323,946.87	10,608.22	988,422.19	Equipment								FY 00	108,893.00	.00	10,865.00	.00	.00	.00	119,758.00	FY 01	217,293.21	.00	778.60	.00	.00	.00	218,071.81	Information Technology Projects								FY 00	213,558.50						213,558.50	FY 01	477,774.18						477,774.18	City Sales Administration								FY 00				6,018.84			6,018.84	FY 01				43,981.16			43,981.16	Motor Fuels Federal Grant								FY 00				23,789.80			23,789.80	FY 01				8,691.96			8,691.96	TOTAL								FY 00	2,053,232.07	308,054.98	1,551,100.97	1,786,329.49	1,818,376.91	296,900.63	7,813,995.05	FY 01	2,463,229.77	290,820.82	1,489,385.54	1,852,094.33	1,850,990.99	293,838.50	8,240,359.95	TOTAL 99-01	4,516,461.84	598,875.80	3,040,486.51	3,638,423.82	3,669,367.90	590,739.13	16,054,355.00																																																
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Resources Available From The Office of State Tax Commissioner

Commissioner's Division

Biennial Report of the Office of State Tax Commissioner
North Dakota Taxpayer Bill of Rights
State and Local Taxes in North Dakota: An Overview and Comparative Guide
Business Reports, Forms and Licenses Required in the State of North Dakota
Career Opportunities (brochure)

Income and Oil Taxes Division

Income Tax Law and Rules
Oil and Gas Tax Law and Rules
Practitioner's Newsletter
Supplemental Tax Guide for U.S. Armed Forces
Withholding Information for Employers
Income Taxation of American Indians Guidelines
Income Taxation of Nonresident aliens Guidelines
Information at the Source Return Requirements and Procedures
Oil and Gas Newsletter
Notification of the Gas Tax Rate

Property Tax Division

Assessor's Supervised Home Study Manual
Assessor's Manual
Certification of North Dakota Assessment Officials (brochure)
Levy Limitation Schedule
North Dakota Sales Ratio Report
Proceedings of the State Board of Equalization
Property Tax Credit for Senior Citizens or Disabled Persons (brochure)
Property Tax Exemption for Improvements to Residential or Commercial Buildings or Structures (brochure)
Property Tax Guidelines
Property Tax Valuations and Property Taxes Levied in ND
Property Taxation Manual
Property Tax Newsletter
Tax Director Teaching Manual
Quarterly Report of Tons of Coal Severed
North Dakota Tax Incentives for Business (brochure)
Tax Incentives for Wind, Solar, or Geothermal Devices (brochure)

Sales and Special Taxes Division

Estate Tax Law, Rules and Regulations
Guidelines
Motor Vehicle Fuel Tax Newsletter
Sales and Use Tax Law, Rules and Regulations
Sales and Use Tax Quarterly Newsletter
Sales and Use Tax Statistical Report
Special Fuels Tax, Motor Fuel Tax and Aviation Fuel Tax Laws; Administrative Rules

Many of these resources are available on our website; please visit us online at www.ndtaxdepartment.com or write:

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Bismarck, ND 58505-0599

Office of State Tax Commissioner

**State Capitol
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www.discovernd.com**

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